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IN THE

Supreme Court of the United States

OCTOBER TERM, 1947

No. 13

THE UNITED STATES OF AMERICA,

Appellant,

vs.

UNITED STATES GYPSUM COMPANY, NATIONAL GYPSUM COMPANY, CERTAIN-TEED PRODUCTS CORPORATION, THE CELOTEX CORPORATION, EBSARY GYPSUM COMPANY, INC., NEWARK PLASTER COMPANY, SAMUEL M. GLOYD, doing business under the name of Texas Cement Plaster Company, SEWELL L. AVERY, OLIVER M. KNODE, MELVIN H. BAKER, HENRY J. HARTLEY, FREDERICK G. EBSARY, and FREDERICK TOMKINS,

Appellees.

BRIEF FOR APPELLEES

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Index

Table of Cases Cited

PAGE

PAGE

Statutes

Miscellaneous

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BRIEF FOR APPELLEES

Opinions Below

The opinion of the three-judge District Court dismissing the case on the merits at the close of the Government's evidence is reported in 67 F. Supp. 397. The opinion of the District Court on the matter of patent validity is reported in 53 F. Supp. 889.

Jurisdiction

This is a civil anti-trust action brought August 15, 1940, by the United States pursuant to Section 4 of the Sherman

Act, to restrain defendants from alleged violations of Section 1, 2 and 3 of said Act.[1] The action was tried and most of the preliminary proceedings were heard by a three-judge court which was constituted on September 15, 1942, after the Government had filed a certificate under the Expediting Act.[2]

The final judgment of the three-judge District Court dismissing the Government's complaint on the merits was entered on August 5, 1946 (R. 4169). A petition for appeal was filed and allowed on September 30, 1946 (R. 4187, 4188). Probable jurisdiction was noted on December 16, 1946 (R. 4204).

Jurisdiction is conferred on this Court by Section 2 of the Expediting Act[3] and Section 238 of the Judicial Code.[4]

Statutes Involved

The material parts of Sections 1, 2, 3 and 4 of the Sherman Act are:

> "§1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal; * * * July 2, 1890, c. 647, § 1, 26 Stat. 209; Aug. 17, 1937, c. 690, Title VIII, 50 Stat. 693.

> "§2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with

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[1]Act of July 2, 1890, C. 647, Secs. 1, 2, 3 and 4, 26 Stat. 209; 15 U. S. C., Secs. 1, 2, 3 and 4.

[2]Act of February 11, 1903, as amended, 32 Stat. 823; 36 Stat. 854; 36 Stat. 1167; 56 Stat. 198; 15 U. S. C. Sec. 28.

[3]Act of February 11, 1903, as amended, 32 Stat. 823; 36 Stat. 1167; 58 Stat. 272; 15 U. S. C., Sec. 29.

[4]36 Stat. 1157; 38 Stat. 804; 43 Stat. 938; 28 U. S. C., Sec. 345.

any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding $5,000, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. July 2, 1890, c. 647, §2, 26 Stat. 209.

"§3. Every contract, combination in form of trust or otherwise, or conspiracy, in restraint of trade or commerce in any Territory of the United States or of the District of Columbia, or in restraint of trade or commerce between any such Territory and another, or between any such Territory or Territories and any State or States or the District of Columbia, or with foreign nations, or between the District of Columbia and any State or States or foreign nations, is declared illegal. * * * July 2, 1890, c. 647, §3, 26 Stat. 209.

"§4. The several district courts of the United States are invested with jurisdiction to prevent and restrain violations of sections 1-7 and 15 of this title; and it shall be the duty of the several district attorneys of the United States, in their respective districts, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. Such proceedings may be by way of petition setting forth the case and praying that such violation shall be enjoined or otherwise prohibited. * * * July 2, 1890, c. 647, §4, 26 Stat. 209; Mar. 3, 1911, c. 231, §291, 36 Stat. 1167."

STATEMENT OF CASE.

The Issue

The main issue upon the appeal is whether a patent owner will continue to be permitted to grant a license to

another to make, use and sell a patented article and to impose a restriction upon his licensee against underselling him in respect of the patented product made and sold under the license; in short, whether the *General Electric* case[5] should be sustained or overruled.

This is the basic question in the case. The Government seeks to avoid a clear-cut consideration of the question by attempting to distinguish the *General Electric* case. To the extent that the attempted distinction involves legal principles, we shall argue that it is unsound. To the extent that it involves factual matters, we shall show that it is based upon a presentation of the case in terms of what the Government charged but failed to prove upon the trial. The discussion of alleged facts in the Government's brief is in shocking disregard of the Trial Court's findings of fact all of which were well supported, indeed compelled, by the evidence. The result is to present the Court with a distorted, misleading and inaccurate view of the case. It is necessary therefore for appellees to restate the case in this brief. Further consideration of the Government's discussion of alleged facts appears in Point IV.

In addition, the Government's brief raises some incidental points on procedure, burden of proof, the declarations rule, and the right of the Government to review in an anti-trust action determinations of the Patent Office on matters of patent validity. These questions are considered in Points III and V of this brief.

The Defendants

The defendant companies in this case comprise the members of the gypsum manufacturing industry of the United

[5] *United States* v. *General Electric Co.*, 272 U. S. 476 (1926).

States in the area east of the Rocky Mountains.[6] They are: United States Gypsum Company, National Gypsum Company, Certain-teed Products Corporation, The Celotex Corporation, Ebsary Gypsum Company, Inc., and Newark Plaster Company, all of which are corporations, and Texas Cement Plaster Company, which is the name under which Samuel M. Gloyd was doing business as an individual. These companies are hereinafter referred to respectively as USG, National, Certain-teed, Celotex, Ebsary, Newark and Texas. Besides Gloyd, the individual defendants are the chief executive officers of the defendant companies. As of the time when the suit was filed Sewell L. Avery was chairman of the Board of Directors of USG, Oliver M. Knode, president of USG, Melvin H. Baker, president of National, Bror G. Dahlberg, president of Celotex and chairman of the Board of Directors of Certain-teed,[7] Henry J. Hartley, president of Certain-teed, Frederick G. Ebsary, president of Ebsary and Frederick Tomkins, president of Newark.

Gypsum Products[8]

The defendant companies are engaged in the mining of gypsum and in the manufacture and sale of products made from it, gypsum board, gypsum plaster, block, tile and Keene's cement.

Gypsum is a mineral consisting of hydrous calcium sulphate. It has rock-like qualities useful in building con-

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[6]This classification is limited to manufacturers of a full line of gypsum products.

[7]At the close of the case the Government consented to the granting of Dahlberg's motion to dismiss and he is therefore not named as an appellee (R. 4145).

[8]Finding of Fact 4, R. 4133.

struction and is found in large deposits in many states throughout the United States.

Gypsum rock is mined and then subjected to calcination —the process of driving off the water of crystallization by heating. The resultant calcined gypsum or stucco is the substance familiarly known as plaster of paris. It has the property of readily recombining with water and resuming its former content of water of crystallization and its original rock-like properties.

Gypsum plaster consists largely of calcined gypsum which is treated and supplemented with other materials to give greater strength, control its set, and impart other desirable qualities. Keene's cement is a highly refined type of gypsum plaster. Block and tile are, as their names suggest, articles of gypsum which are cast in the form of blocks or tile.

The most important gypsum product is gypsum board. It consists of two outer sheets of heavy tough paper, front and back, called "liners," between which there is a lightened gypsum core which is firmly bonded to the paper. Gypsum wallboard is a product used as a finished interior wall. Gypsum lath or plasterboard is a product used as a base to which a coat of plaster may be applied. The term board as herein used includes wallboard and lath or plasterboard.

Patents[9]

Prior to 1912, gypsum board was a rough, crude product. It was made by hand by pouring buckets of calcined gypsum mixed with water in thin layers between multiple pieces of

[9]FF. 5, 11, 12, 16, 17, 24, 42; R. 4133-4152.

rough felt paper and smoothing the product with rollers. After the gypsum had set, the pieces of board were trimmed to size and dried out by stacking in the open air under sheds. In 1912, USG commenced the development of more satisfactory products and more efficient methods of manufacture. These developments were covered by patents—product, process and machine—owned by USG. Among the more important patents were the following:

Closed edge board, Utzman Patent No. 1,034,746 (R. 35-38). When gypsum board was made with rough, exposed edges, great waste was attendant upon the trimming operations of manufacture and even greater waste resulted from the crumbling of the edges and the core in transit and use. The invention of closed edge board, *i.e.*, board having the liners folded over so as to enclose the edge, solved this problem. When the closed-edge board of the Utzman Patent came on the market, open-edge board was largely displaced under the demand of the trade for the better product.

Board making machine, Utzman Patent No. 1,330,413. A machine was developed for mixing the gypsum slurry and distributing it between paper liners and forming the closed-edge board in a continuous operation. The use of this patented machine was essential in the manufacture of closed-edge board.

Board containing starch, Haggerty Patent No. 1,500,542 (R. 64-69). The strength of gypsum board is due in large part to the lateral tensile strength of the paper liners. This strength is dependent upon the degree of bond which exists between gypsum core and liners. For many years difficulty had been experienced when the bond between core and liners

broke down causing "peelers". This difficulty became more pronounced with the development of high speed manufacture and the use of high temperatures in kilns where the board was dried. It was discovered that board containing starch or cooked carbohydrate in the core would insure a good bond between core and liners. Gypsum board embodying this discovery was the subject of the Haggerty Patent.

Foam or Bubble Board, Roos Patents Nos. 2,017,022, 2,079,338 and 2,080,009 (R. 100-114). From the beginning gypsum board manufacturers incorporated a so-called "aggregate" in the gypsum core, usually sawdust, to lighten the board, give greater strength and resiliency, and improve nailing and sawing qualities. The quality of sawdust varied and later it became scarce and expensive. The Roos foam or bubble board patents took care of this situation. They covered gypsum board with a core of cellular structure produced by employing foam or a foaming agent in the gypsum mix during the course of manufacture. Board made with a foam "aggregate" not only did away with the sawdust problems but also was stronger, less brittle to saw and nail, dried more quickly, and was lighter in weight. This last factor resulted in a substantial saving of freight charges which constituted an important item on this heavy, bulky product of comparatively low cost.

Board bundle, Utzman Patents Nos. 1,696,877 and 1,724,740, and Birdsey Patents Nos. 1,730,113 and 1,946,056. Due to the nature of the product, gypsum board is difficult to package or bundle. For many years most manufacturers bundled board with wire but this method was unsatisfactory since the wire would slip and frequently

it would cut into the board causing cracks and breakage. These disadvantages were obviated through the development of a bundle formed by affixing strips of tape around the edges of a suitable number of pieces to form a tight, manageable package.

Metallized board, Roos Patent No. 1,914,345. In the early '30s, gypsum board was confronted with competition from other products which possessed insulation characteristics. This resulted in the invention of metallized gypsum board consisting of board with metallic foil to furnish insulation covered by this and other patent rights owned by USG.

Perforated lath, Roos Patent No. 1,938,354. In many localities, particularly in metropolitan areas, there are building code requirements providing that a wall structure consisting of a plaster base such as gypsum lath plus the applied coat of plaster must withstand a one hour fire test. Ordinary gypsum lath will not pass this test since the gypsum plaster and core calcine and crumble in the face of prolonged application of fire. A perforated lath was developed containing holes of such size and spacing as to permit a wall structure composed of it to withstand the one hour test. When plaster is applied to this type of lath some of it passes through the perforations to form a mechanical key which, because of the size and spacing of the holes, supports the coat of plaster with the result that it will resist fire for an hour. This type of gypsum lath was the first to pass the one hour fire test of the United States Bureau of Standards and to receive the Bureau's one hour fire rating.

Patent Litigation and Licenses[10]

As stated, the developments above described, as well as many others of lesser importance, were covered by patents owned by USG. A demand arose in the trade for these improved products and companies other than USG commenced to copy them. There ensued many years of litigation in which USG strove to enforce and eventually succeeded in enforcing its patent rights.

Prior to 1917 the Bestwall Manufacturing Company (Bestwall) commenced the manufacture of closed-edge board. USG sued for infringement and won. *Bestwall Mfg. Co.* v. *United States Gypsum Co.,* 270 Fed. 542 (C. C. A. 7th, 1921), *cert. denied,* 263 U. S. 713 (1923). Bestwall had, however, in the course of the litigation, been acquired by The Beaver Products Company, Inc. (Beaver), and USG by a supplemental bill sued both of these companies for infringement and again prevailed. *United States Gypsum Co.* v. *Bestwall Mfg. Co.,* 15 F. (2d) 704 (N. D. Ill. 1925). These decisions made the manufacture of closed-edge board by a competitor of USG impossible without infringement of USG's patent rights.[11] Prior to the last mentioned decision, Augustus S. Blagden, president of Beaver, made overtures of settlement to Sewell L. Avery, president of USG; he continued these efforts after the decree under the supplemental bill. Avery, at a meeting with Blagden in December, 1925, specified as terms of settlement the payment of damages by Beaver for infringement

[10] FF. 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20; R. 4134-4144.

[11] In the beginning the Government regarded it as important to assert this fact affirmatively (Complaint, par. 52, R. 12). Now it seeks to minimize the importance of the patents.

of USG's patents, acknowledgment by Beaver of the validity of USG's patents, payment of royalties, and the right in USG to fix prices of gypsum board made and sold by Beaver under the Utzman closed-edge patent. A settlement agreement was executed on July 29, 1926, Beaver paying $250,000 cash damages and USG granting Beaver a license to make, use and sell the patented products, to use the patented processes and to make and use the patented machines (FF. 6, R. 4134-4135).

In September, 1925, after the decision against Beaver, USG sued The American Gypsum Company (American) and the Universal Gypsum and Lime Company (Universal) for infringement, and served a notice of infringement upon the Niagara Gypsum Company (Niagara). On September 17, 1926, a settlement and license agreement was entered into with Universal similar to that with Beaver, except that the lump sum payment was approximately $35,000. A license agreement was entered into between USG and the Atlantic Gypsum Products Company (Atlantic) on March 5, 1927. In this instance no damages were paid, Atlantic not having previously made gypsum board. Texas signed a license agreement on April 11, 1927, under similar circumstances (FF. 7, R. 4135).

In 1923 Certain-teed, originally a manufacturer of roofing products, entered the gypsum industry with the acquisition of the Acme Cement Plaster Company (Acme). In 1926 it commenced the manufacture of open-edge gypsum board at the former Acme plant in Texas. On January 20, 1928, it purchased the assets of Beaver. Beaver was then making a closed-edge board under its license with USG. Certain-teed refused to assume the Beaver-USG settlement agreement and license. USG thereupon, on or about Feb-

ruary 21, 1928, instituted suit in the District Court of the United States in Illinois against Certain-teed and Beaver, seeking an injunction against the distribution of the proceeds of sale to the Beaver stockholders and asserting that Certain-teed should be required to assume all liabilities of Beaver under its settlement agreement and license. Certain-teed was required to put up a million dollar bond, or otherwise to suffer a temporary injunction, as security for damages which might be found due to USG. On May 22, 1929, Certain-teed settled this suit with USG, agreeing to pay damages of approximately $64,000 and to fulfill the obligations of Beaver under its original settlement agreement and license; USG executed in Certain-teed's favor a patent license agreement and the suit was dismissed and the bond released (FF. 9, R. 4136).

On May 16, 1929, National settled two patent infringement suits which USG had brought against it, one on November 5, 1926, the other on May 7, 1928, paying on account of damages for past infringement approximately $178,000 and entering into a patent license agreement with USG (FF. 9, R. 4137).

Ebsary, which had commenced making open-edge gypsum board in 1928, was granted a patent license by USG on May 22, 1929. This license was not a part of settlement of an infringement claim, since Ebsary had not manufactured closed-edge board and there was no infringement suit or basis therefor against it (FF. 9, R. 4137).

Niagara commenced making an open-edge gypsum board, but later made board with a semi-protected edge covered by a Clark application for a patent owned by American. This board had been developed by American in an attempt to compete with USG's closed-edge board.

USG claimed that this board infringed its Birdsey patent No. 1,358,508 covering the manufacture of board with a partially closed edge. Priority over the Clark application had been awarded Birdsey by the Commissioner of Patents; this was affirmed by the Court of Appeals of the District of Columbia in 1926. *Clark* v. *Birdsey,* 56 App. D. C. 136, 10 F. (2d) 1001. A contract of settlement was entered into between Niagara in May, 1929, providing for the payment of damages of approximately $28,000 and for a patent license to Niagara. (FF. 9, R. 4137).

In 1929 USG had pending applications for the three Roos patents covering foam or "bubble" board. These applications were in interference with an application for a patent by Erick Christian Bayer, a foreign patentee, the American rights to whose patent had been acquired by USG. The Roos applications prevailed in the interference proceeding and Roos patents Nos. 2,017,022, 2,079,338, and 2,080,009 were ultimately issued to USG on October 8, 1935, May 4, 1937, and May 11, 1937, respectively.

On May 23, 1929, after the last of the May 1929 license agreements had been executed, Avery of USG described the scope and nature of the Roos bubble board invention, which had just been put into use by USG with satisfactory results after earlier experimentation. Avery outlined its advantages including weight reduction, lower freight cost, elimination of the sawdust problem, easier handling and quicker drying, and stated that if the various licensees were interested he would be willing to grant them licenses on this invention. Following this the licensees did investigate the merits of the Roos bubble board invention and expressed their interest in the matter. In June and July, 1929, negotiations were going on between USG and its various licensees

in respect of a license covering the bubble board invention, and a form of license agreement on that invention had been offered to them. (FF. 11, 12; R. 4138-4139).

About this time, Universal through its president and co-receiver, Eugene Holland, complained to Avery that USG, by using starch in its board to obtain adhesion between the core and paper liners, was infringing two patents owned by Universal known as the Haggerty and Hite patents Nos. 1,500,452 and 1,230,297, respectively. As we have stated, the Haggerty patent covered gypsum board employing starch or a cooked carbohydrate in the core of the board to insure a good bond between the core and the paper covering sheets. This had solved the "peeler" trouble in the gypsum board industry and made possible modern high speed production of gypsum board. Without it, high temperatures used to expedite drying of the board would result in defective board. The Hite patent covered a heat insulating material and method of making the same. In 1927 Universal had brought suit in the United States District Court in Buffalo, New York, against National for infringment of the Haggerty patent, demanding an injunction and an accounting, and the court had ruled that the Haggerty patent was valid and infringed (*Universal Gypsum & Lime Co.* v. *Haggerty*, 21 F. (2d) 544 (W. D. N. Y. 1927)), and National had posted a substantial bond rather than suffer enforcement of a temporary injunction. (FF. 12, R. 4138-4139).

Avery told Holland that it was not USG's policy to infringe patent rights and that he would investigate the claim. Holland continued to discuss with Avery separately the matter of the alleged infringement of the Haggerty and Hite starch patents. As a result of these discussions, USG

agreed to purchase and did purchase these patents (FF. 12, R. 4139).

In August 1929, USG announced its arrangement to purchase the Haggerty and Hite patents and offered all of its licensees new licenses which would replace the prior license contracts and include in one document the outstanding patents of the earlier licenses, the Haggerty and Hite patents, and the applications for patents on the Roos bubble board invention. This offer was made subject to the approval of the District Courts hereinafter referred to (FF. 12, R. 4139-4140).

Pursuant to this offer, Niagara on October 8, 1929, Certain-teed on the 15th, National on the 17th, Ebsary on the 18th, and Atlantic on the 21st entered into new patent license contracts with USG which superseded the previous agreements between these companies and USG, and which covered the Haggerty and Hite patents and also the anticipated patents under the Roos and Bayer applications, as well as the unexpired patents of the earlier contracts (FF. 13, R. 4140).

The sale of the Haggerty and Hite patents by Universal to USG was consummated in a contract of November 5, 1929, which also settled a claim of USG against Universal for infringement of USG's partially closed edge patent and the claim of Universal against USG for infringement of the Haggerty and Hite patents, and which gave Universal a license superseding the 1926 license agreement between USG and Universal. Universal was in receivership and the sale was a favorable one from its standpoint because it provided Universal with substantial funds, permitting it to reorganize and emerge from receivership with its accounts paid. The original and ancillary receivership pro-

ceedings were in seven different Federal District Courts and the sale was approved by all of these courts on or about November 5, 1929 (FF. 12, R. 4138-4139).

As mentioned above, USG had in September, 1925, instituted a suit against American for infringement of USG's closed-edge patent. It had also in the same month commenced a suit against American for infringement of the Birdsey patent on partially closed-edge board. American attempted to obtain a more favorable settlement than had been offered to other infringers. USG's infringement suit with respect to the Birdsey patent had been postponed pending settlement negotiations, reinstated, and ultimately tried and decided in favor of USG. Settlement discussions by American were resumed, with renewed efforts to obtain concessions from USG. On November 25, 1929, American finally settled its outstanding litigation with USG on the terms originally offered, *i.e.*, on terms similar to those of the earlier settlements with other companies, and accepted a license from USG similar to the license contracts of the other licensees. American paid in settlement of past infringement approximately $152,000. On April 23, 1930, Kelley Plasterboard Company, Inc. (Kelley) took a similar license. On January 3, 1939, USG consented to the assignment of this license to Newark. Texas did not enter into a license contract in 1929, but continued as a licensee under its license of April 11, 1927, although it was not subject to price control after August 6, 1929, the date of the expiration of the Utzman closed-edge patent, and no effort was made by any defendant or any agent of any defendant to establish or control the price at which Texas sold gypsum board during the period from August 6, 1929, until February 10, 1937, at which time its license of April 11, 1927, expired and Texas accepted a further license contract similar in form

to the November, 1929, contract with the other licensees (FF. 14, R. 4140).

Niagara was acquired by USG in 1929. National acquired Universal in 1935 and Atlantic in 1936. Newark acquired the stock of Kelley in 1937 and merged with Kelley in 1939. Celotex entered the gypsum industry for the first time when it acquired the assets of American in 1939. Upon acquiring these companies respectively National, Newark and Celotex took over the above-mentioned licenses which had been entered into by Universal, Atlantic, Kelley and American with USG (FF. 15, R. 4141).

The foregoing outlines the circumstances surrounding the signing of the main patent licenses involved in this suit.

The companies which became licensees did so because they desired to settle or avoid litigation and to obtain the right to use USG's patents, considering it a business necessity to be able to do so. Several of the licensees had made the closed-edge board before they acquired the right to do so from USG, for which infringement of the Utzman patent they paid substantial damages. Also some of the licensees had manufactured board containing starch, which was covered by the Haggerty patent. Numerous other patents included in the licenses were essential to the manufacturing of modern gypsum board (FF. 36, R. 4149).

Under each license royalties were paid and USG reserved the right to establish the minimum prices of patented gypsum board made and sold by each licensee thereunder, with the limitation that the minimum prices would not be more than those of USG to its own trade in the same market. Under the earlier licenses, price control was limited to gypsum board made under the Utzman closed-edge patent, and such control terminated at the expiration of that

patent on August 6, 1929, although such licenses were to continue until February 10, 1937, the date of the expiration of the Utzman machine patent (FF. 8, 10, R. 4135-4137). Under the later licenses, price control was operative only with respect to gypsum board made under product patents such as the Haggerty starch patent or, when issued, the Roos "bubble board" or foam patents (R. 4405).

From time to time minimum price bulletins were sent out by USG to its licensees under the various license contracts. The price bulletins were at all times limited in their application to patented board manufactured and sold by each licensee under its license. The price on board was calculated on the basis of a mill price plus freight from the nearest mill (freight-wise) to the point of destination. The bulletins provided for prices on various quantities of board such as carloads, less than carloads and truckloads. In particular markets, such as metropolitan areas, where it was economic to deliver gypsum board in truckload quantities, prices were established for such quantities and the areas in which such prices were to apply were defined. Outside of such areas a higher price was fixed. Provision was made in various instances for a variation in price to cover pool car shipments, railroad switching charges, and "pick-ups" at a mill (FF. 18, R. 4143).

The bulletins also contained provisions purposed to prevent the violation of the minimum price requirements through such devices, in connection with a sale of patented board, as the giving away of board as "dunnage", making advertisement allowances to the customer, granting fictitious damage claims, splitting commissions with the customer by commission salesmen, paying unearned warehousing charges, fictitious hiring of customers' trucks,

giving away plaster or other products, or the sale of such products at a price unusually below the licensees' prevailing market price (FF. 18, R. 4143).

During the periods when price bulletins were sent out by USG to its licensees, each licensee, in the main, sold gypsum board manufactured by it at the prices and upon the terms and conditions stated in the bulletins. No bulletins have been sent out since July 8, 1941 (FF. 19, R. 4143).

In 1932 USG set up as a department a wholly owned corporation called the Board Survey Company. Its function was to receive complaints of license violations, to investigate the facts, call them to the attention of the licensee involved, and upon occasion to the attention of the licensor USG. Board Survey Company was organized by USG for the purpose of bringing about compliance with the licenses. The licensees had no part in its formation, management, or operation. From time to time a representative of USG, as licensor, met with representatives of the licensee companies for the purpose of explaining to them the provisions of the minimum price bulletins and for the purpose of securing adherence to such minimum prices by the licensees (FF. 20, R. 4143-4144).

In addition to the main board license agreements, certain additional contracts relating to metallized board and perforated lath were executed.

At various times in 1934-1935 USG as owner of Roos Patent 1,914,345 and other patent rights covering the use of metallic foil as a thermal insulating element in board granted licenses to other companies. National executed such a license on October 5, 1934, Kelley on October 12, 1934 (USG on January 3, 1939, consented to the assignment of this contract to Newark), Certain-teed on Novem-

ber 2, 1934, Atlantic on November 30, 1934, American on December 4, 1934 (assigned to Celotex on April 12, 1939), Universal on April 4, 1935 and Ebsary on August 14, 1935. In these contracts USG granted licenses to make, use and sell board having a metallized surface embodying the inventions disclosed and claimed in the patents and patent applications covered by the contracts, and reserved the right to fix the minimum prices on board embodying the inventions in question, but at not more than USG's own price in the same market (FF. 16, R. 4141-4142).

Similarly, USG was the owner of Roos Patent No. 1,938,354 covering a fire resistant gypsum board referred to above as perforated lath. USG granted licenses to Certain-teed on June 8, 1936, American on July 10, 1936, Ebsary on February 2, 1937 and Kelley on June 23, 1937, for the manufacture, use and sale of this lath. The terms of these licenses were substantially similar to those of the metallized board license contracts. Later USG offered a revised perforated lath license to licensees, royalty free, *i.e.*, extended an offer to include the perforated lath patent in the main board license agreement at no additional royalty. Such revised licenses were accepted by Certain-teed, Ebsary and Kelley. On January 3, 1939, USG granted Newark, which had merged with Kelley, a royalty free perforated lath license, at the same time canceling the Kelley revised license (FF. 17, R. 4142-4143).

The Government's Charges and Their Disposition by the Court Below

The Government charged that the license agreements entered into between USG as licensor and the other de-

fendants as licensees are not within the rule of the *General Electric* case[12] and are therefore illegal restraints of trade.

The Trial Court held that there is no substantial distinction between the instant case and the *General Electric* case: (a) in respect of the nature of the patents which underlie the license agreements; (b) in the fact that here a number of licenses with price control provisions were executed; and (c) in respect of the terms and conditions of the license agreements and price bulletins. As to (a), the Trial Court held that the patents here, although on different materials, are of similar character and bear a similar relationship to the industry and the development thereof as in the *General Electric* case. The patents principally involved in the instant case cover as completely the patented product as those principally involved in the *General Electric* case (FF. 25, R. 4146). As to (b) the Trial Court ruled that a patentee does not enlarge his patent monopoly by licensing a plurality of licensees (Conclusions of Law 2, 3, R. 4167). As to (c) the Trial Court held that the terms and conditions of the license agreements and price bulletins in the instant case as compared with the terms and conditions, including price provisions, in the *General Electric* case, disclose no material distinction. If there is any difference between the two, it is in the greater stringency and complexity of those in the *General Electric* case (FF. 27, R. 4147).

The Government charged that the license contracts, even if valid on their face, were not *bona fide* but were executed by defendants merely to give color of legality to a combination to restrain trade in gypsum products. The Trial Court found that the Government failed to establish that the agree-

[12] *U. S.* v. *General Electric*, 272 U. S. 476, *supra*.

ments were not made in good faith or were intended only as sham agreements to disguise illegal purposes. On the contrary, it affirmatively found that the license agreements were executed as *bona fide* agreements and were intended to bind each party to the promises made therein and were not sham agreements executed to disguise illegal purposes (FF. 30, R. 4148). The Trial Court specifically found that the license agreements were executed upon the faith of the *General Electric* and *Bement*[13] cases (FF. 31, R. 4148), that the licensees paid substantial damages for past infringement of patents and substantial royalties under the licenses (FF. 32, R. 4148), that USG insisted upon the same terms from all licensees (FF. 33, R. 4148-9), that the negotiations leading up to the various licenses were open and above board (FF. 34, R. 4149), that the licenses were enforced (FF. 35, R. 4149), that the companies which became licensees did so to settle or avoid litigation and obtain the right to use USG's patents, considering it a business necessity to be able to do so (FF. 36, R. 4149) and that each of the licensees decided to take a license independently of the other companies and without regard to what other companies did (FF. 37, R. 4150).

The Trial Court found that the evidence introduced by the Government did not establish that the license agreements were lacking in good faith because executed with intent to accomplish restraints of trade beyond the proper limits of the patent monopoly, by illegally raising and fixing at arbitrary and non-competitive levels the prices of gypsum board, by accomplishing improper standardization of gypsum board and its method of production, by raising, maintaining and stabilizing the level of prices of unpatented

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[13] *Bement* v. *National Harrow Company*, 186 U. S. 70 (1902).

materials—plaster and miscellaneous gypsum products, by effectuating improper restrictions upon distribution of gypsum board, plaster and miscellaneous gypsum products, or by fixing the prices at which manufacturing distributors resell gypsum board (FF. 57, R. 4155).

The Government charged that the actual operations of the defendants were carried beyond the activities contemplated by the agreements as written and into the field denounced by the Sherman Act. The Trial Court held that the actual operations of the defendants under the license agreements were not carried beyond the proper limits of the patent monopoly and licensing thereunder, nor beyond the activities contemplated by the agreements as written, nor into the field denounced by the Sherman Act (FF. 86, R. 4160-1).

SUMMARY OF ARGUMENT

The establishment by a patentee of a minimum price for his licensee on the patented product made and sold by such licensee is a fundamental right under the patent law and is not an illegal restraint of trade.

The privileges granted by the Government under the patent laws create a limited monopoly. But the patent monopoly is not the "obnoxious" monopoly which was unlawful at common law and which was the object of the Sherman Act. The patent laws and the Sherman Act are not in conflict. Any monopoly or restraint of trade which is within the area of the patent coverage is not rendered unlawful by the Sherman Act.

The area of a patentee's power to exclude others is bounded by the claims of the patent. Within that area of exclusion the sanctions of the Sherman Act do not apply. The patentee may share that area of exclusion with another.

by way of license. In granting such a license the patentee may impose any restriction or condition which is not more restrictive of free competition than the patent itself. Accordingly a restriction on a licensee's price in respect of his sales of the patented article made under the license is a proper restriction and not outlawed by the Sherman Act. These considerations were recognized by this Court in the *General Electric* case.

The *General Electric* case was correctly decided. The doctrine that price control of a licensee is reasonably within the reward which the patentee by the grant of the patent is entitled to secure has not been changed or modified by subsequent decisions. All subsequent references by this Court to the *General Electric* doctrine recognize its soundness.

The doctrine of the *General Electric* case should not be overruled. The right of a patentee to charge a non-competitive price is the most important element of value in a patent. A patent license without a price limitation permits the licensee to destroy this main value of the patent. Consequently if the *General Electric* doctrine is overruled it is inevitable that patentees will grant no licenses. The ultimate result will be a lessening instead of an increase of competition. If it is desirable to change the rule of law recognized by the *General Electric* case, the change should be made by Congress, rather than this Court. Numerous bills have been introduced in Congress to effect such a change but none of them has been adopted.

The case at bar cannot be distinguished from the *General Electric* case. The principal patents involved in the licenses here are product patents of substantial value. They cover important developments in the manufacture of gypsum

board just as the three principal patents which were involved in the *General Electric* case.

The *General Electric* case cannot be distinguished upon the ground that in it there was involved only one license with price control whereas in the instant case there are several licenses. The reason behind the decision did not turn on the question of the number of licenses. If price control is proper for one license it is proper for a plurality of licenses. The exclusion of the public from the field marked out by the patent is complete, whether there be no license, one license, or many licenses.

The *General Electric* case cannot be distinguished in respect of the provisions for controlling the prices and terms and conditions of sale of the licensee. The *General Electric* decision sanctions the establishment not only of a price but also terms and conditions incidental thereto. The price provisions in the instant case are no more restrictive than those which existed in the *General Electric* case.

The Trial Court's procedure under Rule 41(b) of the Rules of Civil Practice was correct. Moreover, it properly held that the Government had the burden of establishing the unlawful conspiracy charged in the complaint. It also correctly applied the rule that declarations of one alleged co-conspirator are not binding upon another unless a conspiracy is established by evidence *aliunde* the declarations and even then only when the declarations are in furtherance of the common purpose.

The Trial Court's findings of fact were amply supported by the evidence and are not subject to review in this Court. The Government's statement of alleged facts is distorted, inaccurate and misleading.

There is no authority, statutory or otherwise, for one branch of the Government (the Department of Justice) to

review the determinations of another (the Patent Office) on matters entrusted to the latter by law. The Government may not attack its own patent grant for reasons other than fraud and contend that persons who relied upon such grants in good faith have violated the anti-trust laws. Accordingly, the Court below properly ruled that the Government in an anti-trust action may not review the determinations of the Patent Office and attack the validity of patents relied upon as a foundation for license agreements.

ARGUMENT

Point I.

THE ESTABLISHMENT BY A PATENTEE OF A MINIMUM PRICE FOR HIS LICENSEE ON THE PATENTED PRODUCT MADE AND SOLD BY SUCH LICENSEE IS A FUNDAMENTAL RIGHT UNDER THE PATENT LAW AND IS NOT AN ILLEGAL RESTRAINT OF TRADE.

(a) It Was Correctly Held in the General Electric Case that an Integral Part of the Patent Grant is the Right to Fix the Licensee's Price.

The doctrine of the *General Electric* case should be considered in the light of certain principles of the patent laws and the anti-trust laws which, while elementary, will bear recital here. Since 1790,[14] 100 years prior to the passage of the Sherman Act, the Congress of the United States has exercised its constitutional prerogative "to promote the progress of science and useful arts, by securing for limited times to authors and inventors, the exclusive right to their respective writings and discoveries."[15]

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[14]The first patent statute was enacted on April 10, 1790, during the Second Session of the First Congress. I Statutes at Large 109.

[15]United States Constitution, Art. I, Section 8, Clause 8.

In formulating the patent grant, Congress gave a right of exclusion rather than the right to make, use and sell the patented invention. "The franchise which the patent grants, consists altogether in the right to exclude everyone from making, using or vending the thing patented, without the permission of the patentee." *Bloomer* v. *McQuewan*, 14 How. 539, 549 (1852). "The patent grant is not of a right to the patentee to use the invention, for that he already possesses. It is a grant of the right to exclude others from using it." *Special Equipment Co.* v. *Coe*, 324 U. S. 370, 378 (1945).

A patent is a contract between the inventor and the public pursuant to which the former discloses the nature of his invention for all to study and know and at the end of the patent term to practice without restraint, and the latter covenants to grant and to protect the right of exclusion for a limited time. It is a bargain founded upon mutual considerations which should be supported and carried out in good faith by both sides.[16] Otherwise the promotion of the useful arts, which is the interest and policy of every enlightened government, will be defeated.

To the extent that a patent excludes all others from a particular area of trade for a limited time it is termed a monopoly. But it is not the monopoly which historically has been regarded as detrimental to the public welfare or illegal. The patent privilege is distinct from the "obnoxious" monopoly which repressed the rights and liberties of

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[16] In *Grant* v. *Raymond*, 31 U. S. 218, 242 (1832), this Court remarked that "the public faith is pledged" to give the inventor the full benefit of his discovery.

the people and was illegal at common law.[17] "A patent for a useful invention is not, under the laws of the United States, a monopoly in the old sense of the law."[18]

It was neither the purpose nor the result of the Sherman Act that the patent laws should be modified or changed. The background of the Act demonstrates that its sanctions were designed to apply to restraints of trade which were illegal at common law.[19] These, of course, were not such restraints as are set up by the so-called patent monopoly. The Court is familiar with the statement of Senator Sherman, the proponent of the Sherman Act:

> "* * * It is the unlawful combination, tested by the rules of common law and human experience, that is aimed at by this bill, and not the lawful and useful combination. * * * A limited monopoly secured by a patent right is an admitted exception, for this is the only way by which an inventor can be paid for his invention."[20]

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[17] As early as the reign of Queen Elizabeth, there had grown up in England a practice on the part of the Sovereign of granting special privileges to merchants and others covering particular areas of trade and particular territories. The granting of these monopolies, also called patents, was greatly abused by the Crown until "there was scarcely a family in the realm that did not feel itself aggrieved by the oppression and extortion which the abuse naturally caused." *Macaulay*, History of England, Vol. I, p. 67. The Statute of Monopolies, passed by the English Parliament in 1623, was the culmination of a struggle against these monopolies. It outlawed the multitude of artificially created monopolies but specifically provided that its declarations should not extend to patents for invention (21 Jac. 1, Ch. 3).

[18] *Attorney General* v. *Rumford Chemical Works*, 2 Bann. & Ard. 298 (1876); *Allen* v. *Hunter*, 6 McLean 303 (1855); Robinson on The Law of Patents, (1890) Vol. I, pp. 51-67.

[19] *Standard Oil Co.* v. *United States*, 221 U. S. 1, 50-1.

[20] 21 Congressional Record 2457 (1890).

The Sherman Act and the Patent Laws are not in conflict because:

> "* * * there can be no monopolizing in the legal and accurate sense of the word where there can be no common occupation. Where in the very nature of things there must be exclusion of all others but one, there can be no monopolizing" (*Patterson* v. *United States*, 222 Fed. 599, 620 (1915) cert. denied 238 U. S. 635).

A patent by its very nature involves restraints of trade which otherwise might be unlawful. This Court has recognized that

> "Of course, there is restraint in a patent. Its strength is in the restraint, the right to exclude others from the use of the invention, absolutely or on the terms the patentee chooses to impose. This strength is the compensation which the law grants for the exercise of invention. Its exertion within the field covered by the patent law is not an offense against the Anti-Trust Act. * * *" (*United States* v. *United Shoe Machinery Co.*, 247 U. S. 32, 57 (1918)).

Admittedly parties may sometimes have improperly restrained trade beyond the permissible limits of the patent monopoly but the decisions dealing with such situations consistently uphold the monopoly within the proper area of the patent coverage. In *Boston Store of Chicago* v. *American Graphophone Company*, 246 U. S. 8 (1918) this Court stated (p. 26):

> "* * * nothing in the decided cases to which we have referred, having regard either to the application of the general law or of the patent law, deprives an

inventor of any right coming within the patent monopoly, since the cases alone concerned whether the monopoly of the patent law can be extended beyond the scope of that law or, in other words, applied to articles after they have gone beyond its reach. * * *"

A reconciliation of the apparent conflicts between the patent laws and the anti-trust laws was made in *United States* v. *Motion Picture Patents Co.*, 225 Fed. 800 (D. C. Penn. 1915), appeal dismissed by stipulation, 247 U. S. 524 (1918). The language of the Court is sufficiently pertinent to justify the following quotation. It was said (pp. 804-5):

"A peculiarity of the rights of the owner of a patent, as distinguished from other property, is this: Each has the right to sell that which is his, but the owner of the patent has the exclusive right to sell his patented article. This is, in a very substantial sense, a monopoly. It must be, however, that the monopoly here meant is not the monopoly condemned by the act of 1890. To hold otherwise would clearly be, as counsel for defendants urge, a logical absurdity, because there can be no such thing as restraint in a trade which has no existence, and a monopoly created by law, in pursuance of a policy of the law, cannot be said to result from such restraint. * * *

"The solution of the problem is to be sought by finding the special field of operation of each of these laws. There is a field of trade, the sole occupancy of which may be in a patentee. Here he is supreme, and the keeper of the gate of entrance. There is another field which is in the common occupancy of all. Where the law has given the whole field to a patentee, with the express right of exclusion of others, and the use of the power of the law to enforce

the exclusion, it is unthinkable that such exclusion is an illegal restraint of trade."

In the instant case the basic problem likewise is to find the particular field of operation of both the patent laws and the anti-trust laws as applied to the patent license agreements and activities of defendants here. More precisely, the question here is whether a patentee who agrees to share his patent monopoly with another on condition that his licensee maintain a minimum price on the patented article made and sold by the licensee is protected by the patent laws or condemned by the anti-trust laws.

It has been said that within the area of his invention, the patentee is supreme. The area of his power to exclude others is bounded by the claims of his patent. He may practice his invention by himself and reap what reward he can from being the sole maker and seller of the patented article. If he chooses, he may do nothing to exploit or practice his invention and, like a dog in the manger, exclude all others from the field of his control for the statutory period of 17 years. *Special Equipment Co.* v. *Coe*, 324 U. S. 370, *supra*. Or he may share his rights with others by way of license. *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175 (1938).

A license is simply an agreement by which the patentee allows another to enter a part or all of the area of exclusion of his patent. Such an agreement does not conflict with the anti-trust laws any more than does the patent itself. In fact there is less conflict, for a license promotes competition by giving the public the benefit of two or more sources of supply where there was but one before. The common occupation in the field of the patent by the patentee and one or more licensees is fully in accord with freedom

of competition because, absent the license, the field would belong exclusively to the owner of the patent.

Since a patent license agreement is a sharing of the patent monopoly it too partakes of the characteristics of monopoly and must be considered in the light of the patent privilege rather than the rules of ordinary commercial transactions. Inevitably a patent license agreement contains restrictive provisions which, but for the patent, would be of questionable legality. But a patent license restriction which is operative only within the area of exclusion of the patent does not impinge upon the competitive guarantees of the anti-trust laws. Where the law grants the right to exclude all others and also the right to license others fully to practice within the field of exclusion, it cannot be unlawful for the parties to act between these extremes and for the patentee to yield and the licensee to accept but a portion of the patented field. In other words, a restriction or condition of a patent license cannot be unlawful so long as it is not more restrictive of free competition than the patent itself.

These fundamental concepts establish the legality of a license provision restricting the price of the licensee on his sales of the patented product made by him. Since the patent owner has a monopoly, theoretically every sale of the patented product would be an unreasonable restraint of trade.[21] But even the anti-trust Division has not yet contended that the prohibitions of the anti-trust laws extend to sales of the patented product by the owner of the patent himself. If it is lawful for the patentee to control his own price within the area of monopoly, no greater

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[21]The point was made in *United States* v. *Aluminum Co. of America*, 148 Fed. (2d) 416, 427-8 (C. C. A. 2d, 1945).

restraint is imposed on free competition to permit the patentee to control the price of the licensee who is permitted to share the field of the patent. The position of the public in respect of price competition is certainly no worse than it was before the license. And as we have indicated before the public is otherwise benefited, for with each license there is an additional source of supply of the patented article with possibilities of better quality, more efficient service and the like.

The logic behind sustaining the right of a patentee to impose price restrictions on his licensees was recognized by the Court in *United States* v. *General Electric Co.*, 272 U. S. 476, *supra*, as follows (pp. 489-491):

> "But the question is a different one which arises when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell. The patentee may make and grant a license to another to make and use the patented articles, but withhold his right to sell them. The licensee in such a case acquires an interest in the articles made. He owns the material of them and may use them. But if he sells them, he infringes the right of the patentee, and may be held for damages and enjoined. If the patentee goes further and licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price? We think he may do so, provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. When the patentee licenses another to make and

vend, and retains the right to continue to make and vend on his own account, the price at which his licensee will sell ~~will necessarily~~ affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making them and selling them myself.' He does not thereby sell outright to the licensee the articles the latter may make and sell, or vest absolute ownership in them. He restricts the property and interest the licensee has in the goods he makes and proposes to sell.

"This question was considered by this court in the case of Bement v. National Harrow Co., 186 U. S. 70, 22 S. Ct. 747, 46 L. Ed. 1058. A combination of manufacturers owning a patent to make float spring tooth harrows, licensed others to make and sell the products under the patent, on condition that they would not during the continuance of the license sell the products at a less price, or on more favorable terms of payment and delivery to purchasers, than were set forth in a schedule made part of the license. That was held to be a valid use of the patent rights of the owners of the patent."

The foregoing discussion demonstrates, we submit, that the *General Electric* case was correctly decided and that the inevitable conclusion is that under our patent system, a patentee may impose price restrictions on his licensee.

(b) The Doctrine of the General Electric Case has not been Changed or Modified by Subsequent Decisions.

The recent decisions of this Court do not detract from the fundamental proposition that the owner of a patent

may establish the minimum price at which his licensee may manufacture and sell the patented product, originally upheld in *Bement* v. *National Harrow Company*, 186 U. S. 70 and reaffirmed in the *General Electric* case.[22] In fact, all later references by this Court to the *General Electric* doctrine recognize its soundness.

In *Carbice Corp.* v. *American Patents Development Corp.*, 283 U. S. 27 (1931) this Court held that a patentee cannot provide as a condition of a license that unpatented materials used in connection with the invention should be purchased only from the patentee but nevertheless recognized that a patent owner "can grant licenses upon terms consistent with the limited scope of the patent monopoly. *United States* v. *General Electric Co.*, 272 U. S. 476, 489" (283 U. S. at p. 31).

In *General Talking Pictures Co.* v. *Western Electric Co.*, 304 U. S. 175 (1938), on rehearing, 305 U. S. 124 (1938), further rehearing denied, 305 U. S. 675 (1939), this Court stated when the case was first heard:

> "Unquestionably, the owner of a patent may grant licenses to manufacture, use or sell upon conditions not inconsistent with the scope of the monopoly" (304 U. S. at p. 181).

On rehearing of the same case it was stated:

> "That a restrictive license is legal seems clear. *Mitchell* v. *Hawley*, 16 Wall. 544. As was said in

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[22] The rule has been uniformly applied in the lower courts in many cases including *Straight Side Basket Corp.* v. *Webster Basket Co.*, 82 Fed. (2d) 245 (C. C. A. 2d, 1936); *General Electric Co.* v. *Willey's Carbide Tool Co.*, 33 Fed. Supp. 969 (D. C. Mich. 1940); and *United States* v. *Wayne Pump Co.*, 44 Fed. Supp. 949 (N. D. Ill. 1942).

United States v. *General Electric Co.*, 272 U. S. 476, 489, the patentee may grant a license 'upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.' The restriction here imposed is of that character." (305 U. S. at p. 127).

In *Interstate Circuit, Inc.* v. *United States*, 306 U. S. 208 (1939), this Court held that certain restrictions in motion pictures' distributors' licenses to exhibitors had exceeded the scope of the copyright monopoly but referred to the *Bement* and *General Electric* cases and recognized that

> "a patentee has power to control the price at which his licensee may sell the patented article * * *" (306 U. S. at p. 228).

In *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436 (1940), this Court held that the effort to fix the resale price of jobbers was improper but no question was raised as to the provision in the licenses to the refining companies by which the licensees were required to sell "at a certain fixed price differential above the average net sales price of the licensees' best non-premium grade of gasoline" (309 U. S. at p. 448). In the opinion in that case, this Court stated:

> "The patent law confers on the patentee a limited monopoly, the right or power to exclude all others from manufacturing, using, or selling his invention. R. S. § 4884, 35 U. S. C. § 40. The extent of that right is limited by the definition of his invention, as its boundaries are marked by the specifications and

claims of the patent. *Motion Picture Patents Co.* v. *Universal Film Co.*, 243 U. S. 502, 510. He may grant licenses to make, use or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, save only that by attaching a condition to his license he may not enlarge his monopoly and thus acquire some other which the statute and the patent together did not give." (309 U. S. at p. 456).

In *United States* v. *Masonite Corporation*, 316 U. S. 265 (1942), this Court disapproved the *del credere* agency arrangement of the "hardboard" industry, but said that the case did not present

> "any question as to the validity of a license to manufacture and sell, since none of the 'agents' exercised its option to acquire such a license from Masonite. Hence we need not reach the problems presented by *Bement* v. *National Harrow Co.*, 186 U. S. 70, and that part of the *General Electric* case which dealt with the license to Westinghouse Company. * * *" (316 U. S. at p. 277):

In *United States* v. *Univis Lens Co.*, 316 U. S. 241 (1942), this Court held that the attempt to fix the price of a patented article beyond the first sale constituted an improper extension of the scope of the patent monopoly but this Court in no way rejected the proposition announced by the lower Court (41 Fed. Supp. 258) as follows:

> "Nor does the owner of a patent violate the Sherman anti-trust law by fixing prices in license agreements under which articles may be manufactured and sold by the licensees." (41 Fed. Supp. at p. 264).

In *Mercoid Corporation* v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944), and *Mercoid Corporation* v. *Minneapolis-Honeywell Co.*, 320 U. S. 680 (1944), this Court was dealing with combination patents covering installed heating systems which neither the patent owner nor the licensees sold or installed. It was held that the monopoly of the combination patents could not be extended to impose restrictions on unpatented parts of the combination but this Court in no way disavowed the doctrine of the *Bement* and *General Electric* cases.

That the doctrine of the *General Electric* case has not been changed or modified by subsequent decisions was recognized in the expression of Mr. Justice Frankfurter in a dissenting opinion in *MacGregor* v. *Westinghouse Co.*, 329 U. S. 402 (1947) as follows:

> "It is not questioned that a price-fixing clause in a license to manufacture under a valid patent falls outside the interdict of the anti-trust acts. *Bement* v. *National Harrow Co.*, 186 U. S. 70. The power to fix the price of patented articles is part of the patent grant. It is a mode of maintaining the integrity of a patent and as such is sanctioned by public policy. * * *"

(c) The Doctrine of the General Electric Case Should not be Overruled.

In subdivision (a), *supra*, we considered the logic and reasonableness of the decision in the *General Electric* case. A significant factor underlying the decision is that a normal and lawful incident of the patent monopoly is the ability of the patentee to establish his price as high as possible and without concern for the competition of others. "One of the valuable elements of the exclusive right of a patentee

is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory."[23] The right of a patentee to charge a non-competitive price is the chief element of value in his right of exclusion. It lies at the foundation of the patent right. Congress may have rewarded patentees for the disclosure of their inventions with specific grants of money or other property. Instead a monopoly for a limited period was given. Congress felt that this was the best way to reward a patentee commensurate with the value of his discovery. If his discovery was such that it resulted in great public demand and that other articles could not be used in substitution, obviously his profit was greater for he could charge more. The value of the patent varies in each case with the importance of the discovery, but it always depends on the right to charge a non-competitive price.

When a patent is shared with a licensee, the value of the patent is destroyed unless the licensee's price is restricted. Otherwise the licensee is a competitor with his licensor and able to cut his price and take his trade so long as any premium is charged for the invention itself. It is obvious from what we have said that if the owner of the patent has been able to charge a substantial premium because of the importance and novelty and usefulness of the patented product, his licensee, if unrestricted, has the power entirely to destroy that advantage.

It is no answer to argue that the patentee may protect himself against underselling by his licensee by charging royalties (Gov. brief, p. 264). The Government forgets principle for opportunity in making this argument since it

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[23] *United States v. General Electric Co.*, 272 U. S. 476, p. 490, *supra*.

would seem that if a price restriction in a license is unlawful, so too is a royalty restriction, especially if maintained to influence the licensee's price. Furthermore, the argument loses sight of the fact that a royalty is the consideration for *sharing* the monopoly of the patent—not destroying it. A royalty cannot be realistically considered as a protection against price cutting by the licensee. To be such it would have to be assumed that the costs of production of licensor and licensee are identical and in addition that a licensee would not reduce his margin of profit to gain an advantage over his licensor. A licensee might well absorb the royalty and still cut prices by reducing his own margin of profit. An increase in royalty to the point where it wiped out any margin of profit would undoubtedly destroy the possibility of price cutting but by the same token it would destroy the value of the license.

The inevitable consequence of overruling the *General Electric* doctrine will be that patentees will no longer license others to share their monopolies. The net result then of a change in the law, requested in the name of free competition, will be instead a reduction of competition and a corresponding concentration of all trade controlled by patents in the hands only of the patentees.

The present record is replete with evidence, and the Trial Court found, that USG insisted as a condition of granting licenses that it should have the right to establish the minimum price of the patented product made and sold by the licensees (FF. 33, R. 4148-4149). If the parties had been unable lawfully to agree upon such a condition there would have been no licenses and the many licensees would have been unable over the years to supply their customers with the improved products. We may speculate on what would have been the result. The licensees might have gone

out of the gypsum board business leaving the field entirely to USG. They may have infringed and thereby subjected themselves to immense damages.[24] They may have attempted to compete with inferior products with the probability of bankruptcy (see FF. 60, R. 4155). One thing seems certain and that is neither the position of the public nor the competitive situation would have been enhanced.

The Government's request that the *General Electric* case be overruled thus involves a complex problem of economic policy. The ramifications of the problem need only be alluded to to show that this Court is not an appropriate place to urge such a drastic change in the law. This Court has no facilities for determining how many industries are affected by patents, how many licenses with price control provisions exist, how many licensees would be thrown out of business if price controls were outlawed, and how much competition would be lost rather than gained. These are obviously matters that should be investigated and considered by the legislature which can then decide to what extent, if any, the law should be changed. That at least is our tradition in government.

The Government has argued that the *General Electric* case should be reconsidered because it was based upon the *Bement* case and because certain general principles mentioned in the latter case have since been modified. In the *Bement* case reference is made to the case of *Heaton-Peninsular Button Fastener Co.* v. *Eureka Specialty Co.*, 77 Fed. 288 (C. C. A. 6th, 1896) which, like *Henry* v. *A. B. Dick Company*, 224 U. S. 1 (1912) held that since

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[24]The aggregate damages collected by USG for past infringement was in excess of $700,000 (FF. 6, 7, 9, 14, R. 4135-4140).

a patentee has the complete power of exclusion he can impose any condition upon a licensee including conditions which would enlarge his patent monopoly so as to include unpatented materials. These cases were overruled in 1917 by the decision in *Motion Picture Patents Company* v. *Universal Film Manufacturing Company,* 243 U. S. 502. The Government thus contends that the *Bement* case has been discredited. What the Government fails to point out is that precisely this same argument was made nine years after the *Motion Picture Patents* case in the *General Electric* case. This Court then stated in answer to that argument that the overruling of the *Dick* and *Button Fastener* cases by the *Motion Picture Patents* case did not carry with it the overruling of the *Bement* case. *United States* v. *General Electric Company,* 272 U. S. 476, 493, *supra.* The reasoning of the *Dick* and *Button Fastener* cases was not invoked in the *General Electric* case. There the decision proceeded on the theory that a patentee may impose conditions upon his licensee which are reasonably within the reward which the patentee by the grant of the patent is entitled to secure. The test was, not whether the license restriction is convenient or profitable to the patentee wholly without regard to whether the patentee is profiting from or restraining trade beyond the area covered by his patent, but whether it is reasonably adapted to the securing of the pecuniary reward as defined and limited by the patent.

As early as 1912 proposals have been made in Congress to outlaw price restrictions in patent licenses but none of these has been enacted into law.[25] In 1941 the Temporary National Economic Committee recommended that the patent and anti-trust laws be amended to require patentees

[25] H. R. 22345, 62nd Cong. 2nd Sess. (1912).

to grant only unrestricted licenses.[26] Since then, particularly in the last five years, many bills outlawing price restrictions in patent licenses have been introduced.[27] But none has ever been adopted. This record shows that the legislative intent is that the *General Electric* doctrine should be adhered to. In any event it is clear that any change in the doctrine should not be initiated in this Court. The end sought to be achieved is legislative, rather than judicial; the Government's arguments would be more appropriately addressed to Congress. This type of commercial regulation is the duty of the elected representatives of the people which determine both the advisability of and the method for accomplishing the regulation. If Congress should change the attitude which it has had thus far and look upon the regulation here sought as wise, that regulation would operate prospectively and would not produce the serious economic problems that would flow from a court decree. A multitude of patentees and licensees have entered into and long practiced the privileges recognized by the *General Electric* decision. In the instant case the Trial Court specifically found that the license agreements were entered into upon the faith of the *General Electric* and *Bement* cases (FF. 31, R. 4148). It would be unconscionable for any Court summarily to upset these business relationships, wipe out substantial interests in patent privileges,

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[26] Final Report and Recommendations of the Temporary National Economic Committee, Senate Document No. 35; 77th Congress, First Session (1941) pp. 36-7.

[27] S. 2730, 77th Congress, Second Session, 1942; S. 2491, 77th Congress, Second Session, 1942; H. R. 7713, 77th Congress, Second Session, 1942; H. R. 1371, 78th Congress, First Session, 1943; H. R. 3874, 78th Congress, First Session, 1943; H. R. 3462, 79th Cong. 1st Sess. (1945); S. 2482, 79th Cong. 2nd Sess. (1946).

and retroactively subject the parties not only to civil liability in treble damage suits but to criminal penalties as well.

The Government argues that the *General Electric* doctrine produces confusion and uncertainty because it is difficult to determine what price is one "normally and reasonably" adapted to secure the pecuniary reward of the patent. This is a "red herring" argument. In the *General Electric* case this Court held that price control in general, and not any particular price, was a condition normally and reasonably adapted to secure the reward of the patent. This means that the patentee may establish any price he wants. There is nothing "horrendous" in this conclusion.[28] If the price of the patented article is fixed at a high level, fewer people will buy it, as is recognized in the *General Electric* opinion. In such case, many of the public will get along with what they had before the discovery of the particular patent, or purchase substitute materials. This will result in reduced volume in the sales of the patented article. By the same token if the price is fixed at a lower figure, the volume will correspondingly increase and produce a greater pecuniary reward. In every case it is obvious that this reward will tend to be constant no matter what the price is.

Of course the nature and importance of each patent will vary and the reward in each case will depend on the public demand—if great, because of the importance of the discovery, the price may be high—if minor, the premium obtainable for the patented invention will be low. These are but elementary laws of economics which the Government ignores. They demonstrate that there will always be a "ceiling" on the reward of every patent which is measured by

[28]The expression is from page 258 of the Government's brief.

the true value which the public places upon the patentee's discovery. Thus there is no confusion or uncertainty whatever in applying the *General Electric* doctrine.

The Government, however, argues that the instant case furnishes an illustration of the alleged uncertainty which attends the *General Electric* doctrine because, it asserts, the pecuniary reward of USG's patents was increased because the defendants eliminated the competition of open-edge board. That argument simply confuses the issue and is without merit because it injects a factual contention which the Trial Court found on ample evidence was entirely unwarranted (FF. 66, 89, 90, R. 4156, 4161).

The Government similarly confuses the issue by arguing that the *General Electric* doctrine produces uncertainty in testing the reasonableness of terms and conditions of sale, as well as price. In this connection it refers to its claims that licensees were prevented from painting dealers' fences and that the industry is completely regimented. In passing, we note that it failed to prove these claims (FF. 98, R. 4163).

However, there is no uncertainty, as the present case illustrates, in determining whether the terms and conditions of sale are reasonably designed to protect the patent monopoly. The Trial Court recognized, although the Government has never been satisfied to accept what seems axiomatic, that price control encompasses not only the establishment of a price but the establishment as well of incidental terms and conditions of sale. The latter fall into two classes, those factors which directly relate to price such as terms of payment, cost of delivery to various areas, quantity sold, type of product sold, and the like, and price protective provisions designed to prevent indirect price cutting. The Trial Court found that the terms and conditions here were not

materially different from those in the *General Electric* case (FF. 27, R. 4147). The price protective provisions of the instant case did not prevent licensees from painting dealers' fences, or from doing whatever they chose in respect of their customers. What these provisions did was simply to prevent a licensee from breaching his license and cutting the price on board through the indirect device of furnishing the customer with free paint, or any other gratuity used to influence a sale of the patented product. As the Trial Court found, the furnishing of such gratuities was just as much a cut in the price as granting an out-and-out rebate on the purchase price itself (FF. 98, R. 4163).

Next the Government contends that the very nature of patents produces uncertainty in the application of the General Electric doctrine. This contention is unsound because it proceeds on the false premise that the General Electric doctrine applies only to patents covering basic or fundamental inventions. The patentee of any product patent[29] may establish prices under a *bona fide* license without regard to the relative importance of his patent.[30]

The Government attempts further to confuse the issue by suggesting an analogy between a patentee's right to

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[29]Although the licenses in the instant case covered process and machine patents as well as article patents, price control was limited at all times to gypsum board embodying the claims of product patents (see *infra*, pp. 134-135). And in considering the patents, the Trial Court only considered the product patents. Therefore it is unnecessary to consider whether the *General Electric* principle extends to process patents.

[30]As is hereinafter discussed in greater detail the Trial Court here found on overwhelming evidence that the principal patents involved in the licenses were product patents and "covered fundamental developments in the gypsum board manufacturing industry" (FF. 24, 25, R. 4146), and further, that the licenses were *bona fide* (FF. 30, 38, 57, R. 4148, 4150, 4155).

control prices under a patent and his right to recover damages in infringement cases. It asserts that the rule is that damages for infringement of an improvement patent are withheld unless the patentee can show in what particulars his invention has added to the usefulness of the infringing machine and that he must separate its results distinctly from those of other parts of the machine not covered by his patent (Gov. brief, p. 241). The Government contends that the right of price control should be similarly withheld. It is sufficient answer to this contention that the rule of damages and the three cases cited by the Government in support of it do not represent the present law as this Court in *Westinghouse Electric & Mfg. Co. v. Wagner Electric Mfg. Co.*, 225 U. S. 604 (1912) squarely held. The correct rule is that a patentee is entitled to all the profits realized from the sale of products containing his invention except that the defendant may show, if possible, what part of the profits were not attributable to the invention.

Finally, the Government inquires rhetorically as to what happens when several patentees have patents on a single article and they all attempt to establish a price (Gov. brief, p. 236). The answer is quite simple. Under our patent system it frequently happens that a manufacturer wants to produce an article which is covered by two or more patents owned by different persons. In order to do so without infringing, he must get a license from all the patentees. If he cannot get a license from all he cannot practice all the inventions in his manufacture. Price control makes his problem no more difficult. The obvious arrangement for him would be to have the price control provision of the multiple licenses take the form of the establishment of a minimum price. This is the usual form in any event. Under

such an arrangement the manufacturer would satisfy all licenses by selling at the highest price established by any one patentee.

From the foregoing, it is clear that the only uncertainty in the application of the *General Electric* doctrine is that generated by the efforts of the Government to discredit the case.

Point II.

THE CASE AT BAR IS INDISTINGUISHABLE FROM THE *GENERAL ELECTRIC* CASE.

(a) In Respect of the Nature of the Patents.

In the *General Electric* case a statement appears in the discussion of the facts to the effect that three of the licensed patents—the Just & Hanaman patent covering the use of tungsten filaments in the manufacture of electric lamps; the Coolidge patent covering a process of manufacturing tungsten filaments by which their tensile strength and endurance are greatly increased; and the Langmuir patent covering the use of gas in the bulb, by which the intensity of the light is substantially increased; "cover completely the making of the modern electric lights with the tungsten filaments, and secure to the Electric Company the monopoly of their making, using and vending."[31] The Government has seized upon the words "cover completely" as the basis for an argument that it was the unusual nature of the patents which prompted the Court's decision and that price

[31] *United States* v. *General Electric Co.*, 272 U. S. 476, 481 *supra*.

control is not justified here because the patents are not on gypsum board but on improvements therein such as the closed-edge, starch and foam (Gov. brief, pp. 221-224).

There is no justification whatever for an argument that the *General Electric* doctrine turned upon the Court's remark that the patents completely covered the making of the incandescent electric lamp. The record in that case shows that the *General Electric* patents referred to covered improvements comparable to those in the case at bar.[32]

The incandescent electric light was invented in 1880 by Thomas Edison and the original patents for such lamps had long since expired at the time of the General Electric-Westinghouse license in 1912. The light giving element in the lamp of 1880 was a carbon filament. In 1904, an improved carbon filament known as the "metallized carbon filament" was invented. Next a tantalum filament lamp was introduced. It reduced the consumption of current by about one-third as compared with the ordinary standard carbon filament lamp, but it was not a satisfactory lamp for use on alternating current. Thereafter a tungsten filament incandescent electric lamp was introduced and was thereafter developed to such an extent that it consumed only about one-third of the current consumed by the carbon filament lamp in its best form and less than one-half of that consumed by the metallized carbon lamp for the production of an equal amount of light.

However, the patents covering the tungsten filament lamp were not "basic" in the sense that they covered a fundamentally new and basic invention covering completely an

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[32] *General Electric* Record on Appeal, pp. 88-90.

incandescent electric lamp. They were for improvements upon the original invention of Edison of 1880.[33]

The tungsten filament manufactured under the Just & Hanaman patent of 1912 was very brittle and consequently it was expensive to manufacture and easily broken in shipment and use. In 1913, Coolidge, by improvements described in his patent, increased the tensile strength and endurance of the tungsten filament. In 1916, Langmuir, by what is set forth in his patent, further improved the incandescent electric lamp by the introduction of gas into the bulb and his improvement was used in many, but not all, of the tungsten filament lamps made.

Thus the three patents specifically mentioned in the decision of the Court in the *General Electric* case covered various features of the incandescent lamp having a tungsten filament, which represented a further development in the incandescent light field over the lamp with carbon, metallized carbon or tantalum filaments. Nevertheless, there were still incandescent lamps made with these latter types of filament. In fact, at the time the General Electric-Westinghouse license was executed in 1912, about 50% in number of the total lamps sold were of the ordinary carbon filament type.[34] After nine years of operation under the license the percentage of tungsten filament lamps increased because

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[33]In this connection some idea of the extent of the electric lamp art as it existed at the time of the filing of the three General Electric patents may be gained from the fact that the United States Patent Office had issued 725 patents on electric incandescent lamps prior to the filing of the application for the Just & Hanaman patent, 889 patents prior to the filing date of the Coolidge patent, and 924 patents prior to the filing date of the Langmuir patent, as appears from the files of the main subclasses of the United States Patent Office directed to incandescent lamps.

[34]*General Electric* Record on Appeal, p. 862.

of their superior quality, to approximately 97% of total production.[35] Thus General Electric did not have, as the Government erroneously suggests on p. 223 of its brief, a practical monopoly immediately upon acquiring the tungsten filament patent, but only acquired it over the years as the public gradually recognized the superiority of the product.[36]

By these remarks we do not mean to question that General Electric Company occupied a dominant position in the incandescent lamp industry by reason of its patent ownership. It had patents not only on the tantalum filament lamps but also on the carbon and tungsten filament lamps, and the latter were included in the General Electric-Westinghouse license and the licensor reserved the right to fix the price of lamps having metallized carbon filaments and tantalum filaments the same as it did for tungsten filament lamps. The Court in the *General Electric* case drew no distinction as to General Electric's rights as the owner of patents covering different types of lamps. The new patented lamps then referred to by this Court were only steps in the progress of electric lamp production. They were more efficient than the old carbon filament lamp, but were nevertheless based upon

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[35]*General Electric* Record on Appeal, p. 90.

[36]The Government gives a partial and thus misleading quotation from p. 104 of the *General Electric* record on appeal (Gov. brief, p. 223). The full sentence reads:

> "Because of the superiority of the tungsten filament over the carbon filament, the exclusive right to make, use and vend lamps manufactured with tungsten filaments under the aforesaid patents, if valid and lawfully acquired by the General Electric Company, and of the scope indicated by their claims, vested in their owner, the General Electric Company, what has since become a practical monopoly of the manufacture and sale of incandescent electric lamps. * * *"

Edison's original invention.[37] And those lamps are today being displaced by the fluorescent lighting of modern times. This is the history of the development in most arts.

In the gypsum board industry, USG occupies the position held by General Electric in the electric light field. The principal patents of USG upon which the license agreements in the instant case were founded, likewise covered fundamental developments in gypsum board and were essential to the manufacture of modern gypsum board. Among these were the Utzman closed-edge, Haggerty starch, and Roos foam patents. It is to be noted that these patents were upon the entire product, not merely the closed edge or starch or foam, as urged by the Government (Gov. brief, pp. 221-230). It is true, of course, that in the broad sense the inventions were not of an entirely new product,

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[37] Thus, the Court in *General Electric Co.* v. *Laco-Philips Co.*, 233 Fed. 96 (C. C. A. 2nd, 1916), in speaking of the Just & Hanaman patent, at page 105, said:

> "I think the invention here in suit is of great merit, entitled to firm support, and second only to Edison's. Edison found a dim pathway and transformed it into an illuminated road. Just & Hanaman have broadened that road into a boulevard, alive with blazing lights."

But as the new lamp succeeded the old Edison carbon filament lamp, so it too was itself displaced by the Coolidge filament lamp. Thus, in *General Electric Co.* v. *Independent Lamp & Wire Co., Inc.*, 267 Fed. 824 (D. C. N. J., 1920), in speaking of the Coolidge patent, the Court said (p. 828):

> "The ductile tungsten filament has gone into general use, and has in large measure, if not entirely, supplanted all other filaments, including that of Just & Hanaman, for incandescent electric lamps. It is less expensive to produce, yet it has far greater durability and utility than the squirted filament. It is a commercially new product of great utility, having properties and characteristics unknown to the natural and normal tungsten, or, in fact, to any other material."

but by the same token neither were the inventions in the *General Electric* case.

The Utzman closed-edge patent No. 1,034,746 (R. 35-38) contained four claims, all of which were product claims. A reference to one will be illustrative of the others. Thus Claim 1 reads:

> "1. A plasterboard comprising a body, a covering of fibrous material adhering to one face of the body folded to inclose an edge of the body and overlie a portion of the opposite face thereof, and a covering of fibrous material for said opposite face of the body overlying said folded-over portion of the first mentioned covering but having its edge spaced from the edge of the board."

The Haggerty starch patent (R. 64-69) had eight product claims including, for example, the following:

> "1. A wallboard consisting mainly of gypsum and having a paper liner, cooked starch being incorporated with the gypsum, to insure secure adhesion of said paper liner."
>
> "9. A wallboard consisting mainly of gypsum and having a paper liner, cooked starch being incorporated with the gypsum to insure secure adhesion of the paper liner, fiber being thoroughly distributed throughout the starch to strengthen the board.
>
> "10. A wallboard consisting mainly of gypsum and having a paper liner, cooked carbohydrate being incorporated with the gypsum to insure secure adhesion of said paper liner."
>
> "11. A plasterboard, or the like, comprising a body portion of plaster, mixed with a finely comminuted starch product and a covering of paper adhering thereto."

The three Roos foam patents (R. 100-15) contained numerous product claims, for example, in the first patent, claim 9 reads:

> "9. A light weight building material composed of a hard mass of cellular structure which comprises set cementitious material having permanently fixed therein foam cells that possess their original form and which are arranged throughout the structure in foam-like formation."

and in the third foam patent, claim 14 reads:

> "14. A wallboard comprising a porous body of hardened cellular cementitious material enclosing a plurality of voids encased in tough pliable films, and cover sheets between which said cementitious material is interposed."

It is therefore clear that the principal patents in the instant case are product patents covering gypsum board. The Trial Court correctly stated in its opinion (R. 3982):

> "It is true that the gypsum and the paper in gypsum board are as such not patented; but that is equally true of the metal base and the glass of the General Electric tungsten filament lamps. The patents, although on different materials, are of similar character and bear a similar relationship to the respective industries and the development thereof. The patents principally involved in the instant case no less, and no more, cover completely the patented product than do those principally involved in the *General Electric* case."

The Government's criticism of the USG patents is that the inventions contained therein are not sufficiently basic or fundamental to justify price-fixing (Gov. brief, pp. 221-230). In this argument, the Government makes but passing reference to the Trial Court's finding that these patents

covered fundamental developments in the gypsum board manufacturing industry (FF. 24, R. 4145-4146), and entirely disregards the mass of evidence establishing this fact.

The question of whether a patent is of importance cannot be determined by an analysis of the patent itself. All the circumstances surrounding the patent have to be considered. A patent may be basic in the Government's sense as constituting an entirely new product but have no importance or value because the public has no interest in it. Under other circumstances what the Government would call a very minor improvement patent may be of great importance. For example, the increase of tensile strength in a filament appears to be an unimportant improvement yet it revolutionized the incandescent lamp industry. So, too, the discovery of a product which may not be superior at all but which can be manufactured more cheaply may be of great significance.

On the overwhelming evidence in the instant case the Trial Court concluded that the patents covered fundamental developments. The Trial Court found that prior to the Utzman invention of closed-edge board, gypsum board was a rough unfinished product with exposed edges requiring trimming in the course of manufacture and being subject to breakage in shipping and use, with consequent wastage, and that the discovery of closed-edge board solved this problem (FF. 5, R. 4133-4134). The Government assigned no error with respect to this finding (see R. 4180). The Trial Court also found that when the closed-edge board of the Utzman patent came into the market the open-edge board was largely displaced under the demand of the trade for the better product (FF. 24, R. 4145-4146). The evidence not only supports but compels these findings.

Blagden testified that Beaver "had definitely proven that the closed-edge board was the cheapest board to manufacture." "We had tried every other way, and even though we had to pay a royalty we thought it would save us money in the long run" (R. 874). He said that the consumers emphatically demanded the closed-edge type of board (R. 874-875). C. O. Brown testified that closed-edge board was a superior product costing less to make and that it was demanded by the trade (R. 1236). As to the unpatented open-edge board, he said "the trade didn't want it" (R. 1243). Miller testified as to the unpatented open-edge board that it could not be "profitably sold" and that "the trade would not accept it" (R. 1385). Whittemore testified that closed-edge board was so superior that you couldn't even sell open-edge board (R. 1398-1399, 1404). For additional evidence to the same effect see R. 1446-1447, 1455-1456, 2790, 2964-2965, 3479-3481.

Indeed the Government itself alleged in the complaint that closed-edge board represented a substantial improvement over that then on the market and that the consumer demand for it stimulated other manufacturers to produce and market a board with a protected edge (Par. 49, R. 11). The Government can hardly contend now that the closed-edge patent was of little value. The remark of Judge Evans in the opinion in *Bestwall Mfg. Co.* v. *United States Gypsum Co.*, 270 Fed. 542 that he did not agree that the closed-edge board was a "daring conception" is of no consequence. In that case the Utzman closed-edge patent was held valid and infringed and, moreover, the same Judge admitted that the evidence showed that the closed-edge "protected the exposed edge of the gypsum body, prevented waste, strengthened the finished board, increased the output, improved the appear-

ance of the finished product, and reduced cost of production. A very large increase in the production of plaster board followed the appearance of this patented article" (270 Fed. at p. 544).

As to the Haggerty patent, the Trial Court found that the Haggerty starch invention solved the "peeler" trouble in the gypsum board industry and made possible the modern high-speed production of gypsum board (FF. 12, 24, R. 4138-4139, 4145-4146). Whittemore of Certain-teed testified that starch is important in the manufacture of marketable gypsum board and that the only way to prevent "peelers" is to make starch board (R. 1230-1231, 1413-1414). Certain-teed had been using starch for a considerable period and was concerned that it would be held as an infringer (R. 1413). Holland testified that his investigation disclosed that everybody in the industry was infringing the Haggerty starch patent (R. 961). Since Universal was without funds it was unable to institute infringement suits other than the one against National (R. 961-962). This disposes of the assertion of the Government that other companies had been able to compete prior to the summer of 1929 although Universal owned the starch patent (Gov. brief, p. 228). Of course they could compete so long as they infringed.

In the suit by Universal against National on the Haggerty patent, the Court recognized that National would be irreparably injured if it were enjoined from using starch or carbohydrate in its board and therefore permitted it to continue its manufacture under bond (*Universal Gypsum & Lime Co.* v. *Haggerty*, 21 Fed. (2d) 544, 547). A substantial claim for infringement of the Haggerty patent was outstanding against USG (R. 963). Although the record does not show the precise amount, the price received by Univer-

sal upon the sale of the Haggerty patent was "a very large sum of money" which was instrumental in bringing the company out of receivership (R. 964). Other companies found it necessary to use starch to obtain adhesion between the core and the paper liners (R. 1384, 3481-3483).

All of this evidence demonstrates the fundamental character of the Haggerty invention. The Government's suggestion that the "peeler" problem is easily solved by proper inspection is in no way supported by the record reference cited (Gov. brief, p. 229) and is contrary to the fact. Gypsum board is made in a continuous strip which proceeds along a traveling belt and eventually passes through enclosed drying kilns. By the time a run of board emerges from the drying kiln and is inspected and found to be a peeler, thousands of square feet of board may have been wasted (See R. 472-478, 482-485, 2991).

As to the foam patents, the Government is not aided by the fact that cellular cements as a building product were, broadly speaking, known prior to Roos' invention (See Gov. brief, pp. 238-39). Merely creating holes or voids in a plastic mass was not enough in a gypsum building product. Roos' discovery was a cellular gypsum produced by a foam which was pre-made and introduced into the mass thereby creating a foamlike formation so as to leave the same kind of voids in the product as the foam itself and result in a product having cells or voids uniformly distributed throughout and therefore of necessary strength to form the core material of gypsum board.[38]

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[38]There is no support for the idea that the first two Roos patents may be disregarded because "they do not read on wallboard." (Gov. brief, pp. 230, 290). The claims cover a "lightweight building material" and are therefore generic to a building material of which gypsum board is one of the species. Consequently it is obvious that the claims read on gypsum wallboard, lath and plasterboard.

Not only the text of the Roos patents (R. 105, 110) but also the testimony of Whittemore (R. 1409-1411) establish that attempts had been made to produce cellular gypsum and particularly cellular gypsum board by mixing an effervescing agent in the gypsum slurry during the course of manufacture. This proved inefficient and uncontrollable (R. 1409).

The Trial Court found that sawdust had become difficult to obtain and was moreover unsatisfactory as an "aggregate" because of variation in quality and character which produced manufacturing difficulties and that the use of the foam of the Roos patents solved these difficulties and produced a superior product with reduced manufacturing costs. No error is assigned with respect to these findings (see R. 4181).

There is ample evidence in the record that the Roos foam patents produced a superior product with reduced manufacturing costs and permitted a lighter weight board which was important in reducing shipping costs (R. 1407-9, 1413, 1414, 1464, 2030, 2790-92, 3481-3482).

Finally, in connection with all the patents, it is to be noted that substantial evidence of their great value lies in the fact that USG collected over $700,000 in damages for infringement, and royalties totaling many times this amount. The precise figure of royalties does not appear in the record but an indication of its size is given by the testimony that Ebsary, one of the smaller companies in the industry, paid approximately $200,000 (R. 3079).

(b) In Respect of the Number of Licenses with Price Control and the Extent of the Manufacture and Sale of the Patented Product under Such Control.

In the *General Electric* case the Court considered the General Electric-Westinghouse license which contained a

provision for price control. The Government argues therefore that the *General Electric* doctrine should be limited to a situation where there is but one license and should not be applied where there is a plurality of licenses extending throughout an industry (Gov. brief, p. 178-180).

In considering this argument, it is to be noted that whereas the General Electric-Westinghouse license was the primary point of conflict in the *General Electric* case it was not a simple, isolated license with insignificant effect upon the electric lamp industry. Actually, the Court had before it a patent license arrangement which encompassed substantially all of the incandescent light industry. It appears from the opinion of the Court[39] that in the year 1921 the relative percentages of the business done by the companies in the industry were as follows: General Electric 69%; Westinghouse 16%; other licensees 8%; and manufacturers not licensed 7%.

Thus as between the licensor General Electric and the licensee Westinghouse, 85% of the electric light business in the year 1921 was subject to the price restrictions of the license between them because, by its terms, the licensor was obligated not to sell at prices lower or on terms and conditions more favorable to the purchaser than those established by the licensor for sales by the licensee.[40] It is true that the General Electric licenses other than the Westinghouse license did not have price-fixing provisions, but they

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[39] *United States* v. *General Electric Co.*, 272 U.S. 476, 481, *supra.*

[40] *General Electric* Record on Appeal, pp. 121, 125. The Government is in error in asserting that there was nothing of this sort in the *General Electric* case. (Gov. brief, p. 253). Upon the principles we have discussed, the patentee may agree not to establish the licensee's price at any higher level than his own.

were restricted in respect of "the amount of lamps licensed to be sold by each such licensee during any one year."[41] The licenses granted by General Electric to Westinghouse and the other licensees contemplated a pro-rating of business between the licensor and all of its licensees, and also included type restrictions.[42]

License provisions limiting the quantity of products which a licensee may manufacture and sell or restricting the type of products may be fully as restrictive as a reservation of price control and, except for the legitimization of a patent, such provisions would be unlawful. Thus in the *General Electric* case the restrictive provisions of the licenses involved 93% of the industry, with actual price-fixing provisions applicable to 85%. These figures largely refute any argument that the *General Electric* case is distinguishable because in the instant case 100% of the gypsum board manufacturers located in the so-called Eastern area were licensor and licensees.

But, in any event, the reasoning of this Court in deciding the *General Electric* case did not turn on the number of price-fixing licenses nor the extent of an industry to which the control of the patented product applied. Its reasoning was as follows: The owner of the patent has a monopoly which excludes all others. He may share that monopoly by a license. It can make no difference so far as the Sherman Act is concerned whether the owner of the patent retains his monopoly or grants one license, or grants many licenses. The field of exclusion is always the same and there is no valid reason why the Sherman Act requires competition within the area of exclusion among licensor

[41] *General Electric* Record on Appeal, p. 92.
[42] *General Electric* Record on Appeal, p. 113.

and a plurality of licensees. This reasoning was adopted by the Trial Court in the instant case which stated that "if the patent laws, despite the Sherman Act, do not legitimatize a monopoly in the manufacture and sale of a patented product by a patentee-licensor and several licensees, they cannot legitimatize a monopoly by the patentee-licensor and one licensee or by the patentee alone, because in each instance the exclusion of the public from manufacture, use or sale within the field marked out by the patent is exactly the same, i.e., complete" (R. 3983).

Much of the Government's discussion of alleged facts has to do with talk among the members of the gypsum board industry; one manufacturer inquires whether a license should be taken, another recommends the license, another complains about the terms, all face large damages for infringement and look for the settlement most beneficial to his own company. That is what the proof adds up to. This cannot constitute unlawful conduct if it is lawful to have a plurality of licenses. If something is lawful, it can scarcely be unlawful to talk about it. These considerations were well stated by the Trial Court in the form of questions to Government counsel (R. 3996-3998):

> "Justice Stephens: * * *
>
> "Let's assume for the moment that the General Electric case means that he can only have one licensee. He cannot enter into an agreement with that licensee without discussion of terms and conditions and prices; so that far, at least, the discussion cannot be illegal. The getting together of the parties cannot be said to be the kind of a conspiracy which is illegal under the Sherman Act because the Sherman Act and the patent laws stand together.

"I have difficulty in seeing, taking the next step, how it can be said that the General Electric case confines a patentee to licensing one licensee—because what difference can it make, if he has a right to retain the whole patent monopoly in himself if he wishes to, whether he divides it with one or divides it with ten or with a hundred. It is still a patent monopoly. The public is excluded except to the extent that he gives it the benefit of the invention by using it himself or by dividing it with licensees. If it then follows from the General Electric case that a patentee can have more than one licensee, again how can it be illegal for the group of licensees or the several licensees to discuss either with him or with each other the terms of license arrangements? In short, how can the law both give and take away with the same hand? It gives the right to enter into either one or a group of patent-license agreements. Does it not necessarily also give the right to do the things that are normally necessary to constitute such agreements—talk about them and discuss the terms? Must a patentee go by stealth and by night to each licensee separately to make out the license agreement and avoid any discussion with the group?

"Moreover, if the suggestions I have made concerning the General Electric case are sound, if it is lawful to enter into a license agreement containing price-fixing terms and conditions in reasonable protection of the patent monopoly with either one or a series or a group of licensees, how can it be illegal to accomplish the inevitable economic consequences of that, which you phrase as blanketing an industry or stabilizing prices, or even producing uniformity in products because the patented product is more likely to sell because of its merit; and if it is not illegal to

> accomplish the normal economic consequences of licensing, how can it be illegal to talk about them and arrange for them in entering into license agreements?"

These questions have never been satisfactorily answered.

It is argued that the *Bement* case on which the *General Electric* decision in part relied expressly pointed out that only one price-fixing license was being considered, and the Government contends that it should be inferred that a different result would have been reached if the record, which was there defective, had shown that there was a plurality of licenses (Gov. brief, pp. 178-180). The point is not well taken. The defendant in the *Bement* case sought to establish that the license contract upon which it was being sued was part of a larger combination in restraint of trade which had been held unlawful in several other cases. But the record did not contain proof of this defense and this Court accordingly held that the one license agreement before it for consideration was valid. In commenting upon the condition of the record however, this Court stated that the defense of illegality would only have been made out (1) if there had been other similar agreements and (2) if such other agreements had constituted an illegal combination (186 U. S. at pp. 94-95). Thus, the opinion makes it clear that the mere plurality of licenses would not have been unlawful.

In *Standard Sanitary Co.* v. *United States*, 226 U. S. 20 (1912), an instance where there was a plurality of licensees with price-fixing, the arrangements were held unlawful because instead of *bona fide* agreements there was a price-fixing scheme which the parties had sought to cover up under the guise of lawful licenses. Moreover

the arrangements contemplated restraints far beyond the scope of the patent monopoly including resale price-fixing and control of products having no relation to the patents. The arrangements were held illegal for these reasons and not because there was a plurality of licenses covering 85% of the industry.

Finally, the *Masonite* case[43] does not support the proposition that a plurality of patent licenses to manufacture and sell may not contain price control provisions. There the defendant manufacturers had withdrawn from the field of the manufacture of "hardboard" and delegated to Masonite the right to manufacture for the entire industry. Masonite then supplied "hardboard" to all the other members of the industry under a *del credere* system and, of course, fixed the prices at which all should resell the product. This Court held that although a comprehensive *del credere* plan of distribution might be legal, as in the *General Electric* case, where it operated vertically through the normal channels of distribution and applied to those who would normally be the manufacturer's agents, *i.e.,* jobbers and dealers, the system becomes illegal when it is made to operate horizontally through an industry where manufacturing competitors fix prices under the guise of agency arrangements. The fact that "hardboard" was a patented article did not save the arrangement because the disposition of the product by Masonite to the *del credere* agent was tantamount to a sale and exhausted any patent privileges. This Court expressly recognized that it did not have before it

> "any question as to the validity of a license to manufacture and sell, since none of the 'agents' exer-

[43] *United States* v. *Masonite Corp.,* 316 U. S. 265 (1942).

> cised its option to acquire such a license from Masonite. Hence we need not reach the problems presented by *Bement* v. *National Harrow Co.*, 186 U. S. 70, and that part of the General Electric case which dealt with the license to Westinghouse Company" (316 U. S. at p. 277).

The Government's great reliance on the *Masonite* case is misplaced. It improperly construes the agency arrangements there as analogous to the agency arrangements considered in the first part of the *General Electric* case and contends that separate lawful agreements became unlawful because they ran throughout the industry. The faulty part of the argument is that the agency plans in the two cases were materially different. The illegality of the *Masonite* case stemmed from the fact that erstwhile competitors became the agents of one company. The decision was not controlled by the fact that there was a plurality of *del credere* agents. The arrangement would have been bad if it was limited to Masonite and one competitor.

(c) In Respect of the Terms and Conditions of Sale.

A summary of the terms and conditions relating to price as set forth in the licenses and price bulletins thereunder both in the instant case and in the *General Electric* case appears in the Trial Court's opinion and will not be repeated here (R. 3945-3947, fn. 13, 3987-3990, fn. 25). A comparison of the provisions in the two cases establishes no material distinction. If anything, the terms and conditions in the *General Electric* case were more detailed and restrictive than those in the instant case. In both cases the licenses were non-exclusive. There was to be no contest of the validity of patents; there were provisions for royalties, records and reports. In both cases the licenses were granted

upon the condition that the licensor should have the right to establish the minimum price at which the licensee should sell the patented product manufactured by it, and such minimum prices were not to be less than those of the licensor. In both cases, in respect of price, there were two classes of provisions; one class dealing with prices as such, the other intended to protect the price fixed; *i.e.*, to prevent indirect price cutting.

In each case the provisions for arriving at a price were formulated in the light of the fact that the actual price at which a product is sold cannot be arrived at merely by fixing an amount, but that other factors which have direct economic relationship to price—such as terms of payment, cost of delivery, including freight charges, quantities sold, type of product sold, and the like must also be stipulated.

It cannot be properly contended that terms and conditions of sale were not considered or passed upon by this Court in the *General Electric* case (Gov. brief, pp. 246-247). Contrary to the Government's statement on page 247 of its brief, error was assigned as to the holding that the licensor could control "the prices and terms of sales of lamps" and as to the failure to hold that the license was unlawful "because it was agreed therein that the licensee would adopt and maintain the conditions of sale, or sales method, in distributing the lamps manufactured by it and moving in interstate commerce adopted and maintained from time to time by the licensor."[44] Indeed one of the main disputes in the case was whether the license required Westinghouse to use the same *del credere* system which was the subject of discussion in the first branch of the case. But this Court

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[44] *General Electric* case, Record on Appeal, pp. 873-874.

held that "the result must be the same" no matter which way the disputed question is resolved (272 U. S. at p. 489). It thus appears that this Court did not limit its ruling to price but specifically included "conditions of sale" (272 U. S. at p. 490).

Point III.

THE TRIAL COURT'S RULINGS IN RESPECT OF RULE 41(b), BURDEN OF PROOF, AND THE DECLARATIONS RULE WERE CORRECT.

(a) The Trial Court's Procedure under Rule 41(b) was proper.

Upon the defendants' motion to dismiss at the close of the Government's case under Rule 41(b) of the Federal Rules of Civil Procedure, the Trial Court weighed the evidence, drew inferences therefrom and, having determined that the Government had failed to establish its charges, rendered its decision dismissing the complaint and made findings of fact and conclusions of law. The procedure was in accord with reason, *Lambuth* v. *Stetson & Post Mill Co.*, 14 Wash. 187, 44 Pac. 148 (Sup. Ct. Wash. 1896), and the great weight of authority under Rule 41(b) in particular. *Gary Theater Co.* v. *Columbia Pictures Corp.*, 120 Fed. (2d) 891 (C. C. A. 7th, 1941); *Bach* v. *Friden Calculating Machine Co.*, 148 Fed. (2d) 407 (C. C. A. 6th, 1945); *Young* v. *United States*, 111 Fed. (2d) 823 (C. C. A. 9th, 1940); *cf. United States* v. *Blauner Construction Co.*, 37 Fed. Supp. 968 (D. C. Mass. 1941).

Any question concerning this procedure has been rendered academic by the recent amendments to the Rules of Civil Procedure which now expressly sanction the action of

the Trial Court in respect of Rule 41(b). Although the Government assigned error, this point has now been waived by its withdrawal of assignments of errors Nos. 8 to 11, inclusive (Gov. brief, p. 160).[45] The well-reasoned discussion in the Trial Court's opinion would have disposed of it in any event (R. 3958-3966).

(b) The Government had the Burden of Establishing the Unlawful Conspiracy Charged in the Complaint.

The first 43 paragraphs of the complaint describe the defendants and the gypsum industry (R. 1-9). The next 3 paragraphs bear the heading "Offenses Charged" (R. 9). Under this heading, paragraph 44 charges the defendants, in the language of the statute, with violations of Sections 1, 2 and 3 of the Sherman Act. These violations are given the collective reference of "the combination" (R. 9, 10). In paragraph 45, "the combination" is amplified by allegations that the defendants have combined to fix arbitrary and non-competitive prices for the sale of gypsum products, to standardize the manufacture of gypsum board, to control the distribution of gypsum products and to fix resale prices of manufacturing distributors (R. 10). The complaint then alleges, in paragraph 46, that "the combination" was entered into and carried out by the defendants in part under the guise of license agreements purporting to relate to the use of certain patents owned by USG; that to give color of legality to "the combination", the defendant companies and other companies agreed among themselves to enter into, and did enter into, these license agreements; and that such

[45]The point is mentioned in this brief only because the Government discusses it in a footnote (Gov. brief, p. 172) notwithstanding its waiver of the point.

agreements were not *bona fide* patent license agreements reasonably designed to secure to USG the pecuniary reward for valid patent monopolies, but were entered into and executed for the illegal purposes described in paragraphs 44 and 45 of the complaint. It is then alleged that "the combination is more fully set forth in paragraphs 47 to 120 hereof" (R. 10-11).

In paragraphs 47 to 120 of the complaint the patent infringement litigation and the signing of the patent licenses are set forth in considerable detail and it is further alleged that defendants not only controlled the prices and terms and conditions of sale of gypsum board through the license agreements, but that there were a number of secret side agreements as well (R. 11-31). For example, it is claimed that the parties agreed that the manufacture of unpatented open-edge board would be discontinued, that USG would stabilize and raise the prices on board, that all companies would raise their prices on plaster and miscellaneous gypsum products (par. 77, R. 18-19), that certain procedures of manufacture would be considered within the coverage of the Hite and Haggerty patents for the purpose of permitting price control (par. 86, R. 21), that the manufacture of board would be standardized (par. 93, R. 25), that the distribution of gypsum products through jobbers would be terminated (par. 95, R. 25-26), and that the resale prices of manufacturing distributors would be controlled (par 108, R. 29). Likewise, it was charged that the license contracts were used as a front for fixing prices of unpatented board and to accomplish the alleged illegal side agreements referred to (par. 97-107, R. 26-29). Copies of several of the patents and license agreements are annexed to the complaint as exhibits (R. 35-130).

Paragraphs 121 to 123 set forth the effects of the alleged "combination" and the prayer for relief follows (R. 32-34).

The Trial Court held that the Government had the burden of proving the alleged combination as charged, and overruled a contention that as soon as the Government had proved the execution of the license agreements with price control provisions it had made out its case and the burden was upon the defendants to establish that such price control was valid. It is submitted that the action of the Trial Court was proper.

Under the allegations of the complaint, the alleged violations of law were not in the price control provisions of the patent licenses, nor in the failure of the parties to make patented board under the licenses, but were that the licenses were *non bona fide* and that the operations thereunder went beyond the scope of the patent monopoly in specified ways. Certainly it would be extraordinary to say under these circumstances that proof simply of license agreements with price control provisions made out the Government's case and cast the burden on the defendants of going on to establish that the licenses and the operations thereunder were proper.

As the Trial Court stated in its opinion (R. 4004):

> "Where the Government has pitched its case as carefully and elaborately as it has upon violation of the Sherman Act through the execution of patent license agreements not bona fide, and not designed to secure to USG the pecuniary reward for valid patent monopolies, but executed only for illegal purposes, and where the Government has set forth in such detail as it has the manner of accomplishment, through misuse of patent license agreements, of these illegal purposes, it ought to be required to prove the case it has

> thus alleged unless, as said, there is some clear rule of adjective or substantive law which relieves it of this burden."

The Government has been unable to furnish any authority which holds that it should be relieved of the burden of proving its case as charged. Its present brief refers to the proposition that price fixing among competitors is unlawful *per se* and mentions Rule 8(c) of the Federal Rules of Civil Procedure, which lists many affirmative defenses (but none relating to this problem) to be pleaded in a defendant's answer (Gov. brief, pp. 218-221). Obviously this does not establish that the Government, after pleading patents and patent licenses and specific unlawful conduct in connection therewith, can merely introduce the license agreements and cast upon the defendants the burden of establishing that they did not unlawfully restrain trade.

It may be admitted that price-fixing agreements are unlawful in the usual situation which has come before the courts. When disassociated from patents such agreements are unlawful because of necessity they involve an unreasonable restraint of trade. However, price control under patent licenses does not constitute an unlawful restraint of trade. If the Government in the instant case had merely alleged that type of price control, there would have been no sufficient charge of illegality. Something more than that would have had to be pleaded and proved to constitute a violation of law.

The only case cited by the Government having any bearing on the point in question is *United States* v. *Motion Picture Patents Co.*, 225 Fed. 800, *supra*, where a passing remark is made that a defense there asserted on the basis of patent rights was "one in confession and avoidance" (225 Fed. at p. 803). But as the Trial Court herein noted (R.

4005), the pleadings in that case were not described and it cannot be determined whether the charges were, as in the instant case, that the violations of law were accomplished through the misuse of patent license agreements. So far as appears, there may have been no mention whatever of patents or patent licenses in the complaint.

The Trial Court in the instant case properly recognized that the decision in *Patterson* v. *United States,* 222 Fed. 599 (C. C. A. 6th, 1915), *cert. denied* 238 U. S. 635 (1915), was a holding directly contrary to the Government's contention. There it was held that an indictment under the Sherman Act which charged a conspiracy in restraint of trade, and monopolization, by a company, its officers and agents, and alleged that the company had patents covering the products manufactured and sold, must also negative that the trade and commerce was covered by the patents. In the *Patterson* case, demurrers to three counts of the indictment had been overruled by the trial judge. On appeal after trial and conviction, the Circuit Court of Appeals found certain errors in the exclusion of evidence and in instructions to the jury in respect of the first count, and held that the demurrers should have been sustained in respect of the second and third counts. With respect to the third count, the Court said (222 Fed. at p. 625):

> "* * * The indictment, having thus charged that the National [Cash Register] Company had patents covering the cash registers made and sold by it, should have negatived that the trade and commerce which it so secured and held onto was covered by those patents. In the first count it is alleged that defendants' conduct therein complained of was not 'justified or warranted by any letters patent'; but it was not meant thereby to charge that the trade and commerce af-

fected by the conspiracy complained of therein was not covered by the National Company's patents, for it is the position of the government that the defendants were not justified or warranted by those patents in protecting the rights so secured in that way. It is charged in the first count that at the beginning of the 20 years the National Company did 80 per cent of the manufacturing of cash registers. This of itself was a practical monopoly. It is not alleged that it had been secured by wrongful acts. Presumably it was entitled to it under its patents. It is true that it is alleged that long before the 3 years preceding the finding of the indictment most of the basic patents and many of the improvement patents had expired. But this concedes that some of the basic patents were then still unexpired at the beginning of the 3 years, and it is consistent with the fact that such was the case as to a great number of improvement patents. Everything, therefore, which the count alleges, may be true, and yet the National Company have been entitled to hold onto the business which it had so secured, in which case its conduct in so doing could not have been monopolizing."

As is fully discussed in the opinion of the Trial Court herein (R. 3999-4012) on principles of both adjective and substantive law, the burden of proof was upon the Government to prove its case as charged. It is submitted that this ruling was correct.

(c) The Declarations of one Alleged Co-conspirator are not Binding upon Another Unless a Conspiracy is Established by Evidence Aliunde the Declarations and, even then, only when in Furtherance of the Common Purpose.

The Government contends that the Trial Court erred in the application of the declarations rule (Gov. brief pp.

195-200). Our ensuing discussion will show, we submit, that there was no error. But the question is academic in any event for the Trial Court held that the evidence was insufficient to sustain the Government's charges even if the declarations were regarded as binding on all defendants (R. 4101).

In discussing the facts in this case the Government's brief totally disregards the declarations rule and treats all evidence as if it were binding on everyone. It may come as some surprise to the Court to realize that the discussion of alleged facts set forth in the first 160 pages of the Government's brief is based almost entirely on declarations.

The declarations rule is that where two or more persons act in concert, with a common purpose, the acts and declarations of one during the existence, and in furtherance, of the conspiracy, are held in law to be the acts and declarations of the others. It is premised upon the law of agency and partnership that binds one person engaged in a common venture with the acts of all so long as they are done within the scope of the common program. The nature of the rule indicates the limitations applying to it. In order to render admissible as against one co-conspirator the acts and declarations of another, (a) the existence of the conspiracy charged must be shown by independent evidence, (b) the connection of the co-conspirators with the conspiracy charged must likewise be established independently, and (c) the acts and declarations must be in execution and in furtherance of the common purpose.

In *Winchester & Partridge Mfg. Co.* v. *Creary*, 116 U. S. 161 (1885), a common purpose to defraud other creditors of a vendor by a sale of property was charged against the vendor and a vendee creditor. The trial court

permitted evidence to be received as to statements made subsequent to the sale by an officer of the vendor which tended to prove the conspiracy charged. This Court reversed the case stating (p. 166):

> "* * * it is sufficient to say that such declarations are not admissible against the vendee, unless the alleged common purpose to defraud is first established by independent evidence, and unless they have such relation to the execution of that purpose that they fairly constitute a part of the *res gestae*. There was no such independent evidence in this case, and there is no foundation for the charge of a conspiracy between the vendors and vendee to hinder creditors, outside of certain statements which Webb is alleged to have made after his firm had parted with the title and surrendered possession."

In *Thomas* v. *U. S.*, 57 F. (2d) 1039 (C. C. A. 10th, 1932), in reversing a conviction for conspiracy to violate the Prohibition Laws, the Court said (pp. 1041-1042):

> "To render evidence of the acts or declarations of an alleged conspirator admissible against an alleged co-conspirator, the existence of the conspiracy must be shown and the connection of the latter therewith established. *Pope* v. *United States* (C. C. A. 3) 289 F. 312, 315; *Kelton* v. *United States* (C. C. A. 3) 294 F. 491, 495; *Isenhouer* v. *United States* (C. C. A. 8) 256 F. 842; *United States* v. *Goldberg*, 7 Biss. 175, Fed. Cas. No. 15,223; *United States* v. *McKee*, 3 Dill. 551, Fed. Cas. No. 15,686; *Burns* v. *United States* (C. C. A. 8) 279 F. 982, 986; *Dolan* v. *United States* (C. C. A. 9) 123 F. 52; *Stager* v. *United States* (C. C. A.) 233 F. 510.
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> "Declarations made by one conspirator to another are not competent evidence to establish the connection of a third person with the conspiracy.

> *Kuhn* v. *United States* (C. C. A. 9) 26 F. (2d) 463; *United States* v. *McKee, supra.*
>
> "The existence of the conspiracy charged cannot be established against an alleged conspirator by evidence of the acts or declarations of his alleged co-conspirator done or made in his absence. *Hauger* v. *United States* (C. C. A. 4) 173 F. 54, 57; *United States* v. *Richards* (D. C. Neb.) 149 F. 443; *United States* v. *Goldberg, supra; United States* v. *McKee, supra.*"

See *Stager* v. *U. S.*, 233 Fed. 510, 513 (C. C. A. 2, 1916); *Mayola* v. *U. S.*, 71 F. (2d) 65, 67 (C. C. A. 9, 1934); *Ware* v. *U. S.*, 154 Fed. 577, 580 (C. C. A. 8, 1907).

In *Logan* v. *United States*, 144 U. S. 263, 309 (1892), this Court held that "the defendants on trial could not be affected by the admissions made by others of the alleged conspirators after the conspiracy had ended" since such declarations "were not in execution or furtherance of the conspiracy, but were mere narratives of a past fact."

Apparently in an effort to have this Court consider generally the evidence of alleged co-conspirators without proof by evidence *aliunde* of the existence of the conspiracy alleged here, the Government contends, on the basis of *Hitchman Coal & Coke Co.* v. *Mitchell*, 245 U. S. 229 (1917) that it may take any association or contact between two individuals and build it into a broad illegal conspiracy by resort to declarations of one of the individuals. The *Hitchman* case does not support this proposition. There, seven defendants, individually and as officials of a labor union, were charged with an unlawful conspiracy to cause plaintiff's mine to be shut down, its plant to remain idle, and its contracts to be broken and unfulfilled, until such time as plaintiff would submit to the demand of the union

to unionize its plant. The evidence showed that the union had, in meeting assembled, adopted resolutions to achieve the common purpose of unionizing the plaintiff's mine. Official stenographic reports of the meeting, including declarations of others than the defendants, were admitted and it was held that such admission was proper on common law principles of agency because the independent proof established that the union members, including the defendants, had bound themselves together to accomplish a common purpose, with the result that each member of the group in effect constituted the others as his agents, thereby making the act or declaration of one in furtherance of the common purpose the act of all. But the limitation which is implicit in the *Hitchman* case is that the independent evidence which must be introduced by the Government before declarations of one co-conspirator can be used to bind another must prove *the very combination* charged. Declarations cannot be used to prove the common purpose, nor to enlarge the scope of any common purpose which has been proved. Without this limitation, one person might be bound by the declarations of another establishing some illegal undertaking quite different from an innocent transaction in which the two had been jointly engaged.

This limitation was recognized in *United States* v. *Food and Grocery Bureau of Southern California*, 43 Fed. Supp. 966 (D. C. Cal. 1942) discussed in the opinion of the Trial Court below (R. 4022-4024). That case involved a criminal prosecution for violation of Section 1 of the Sherman Act against the Food and Grocery Bureau and others, charging a conspiracy to stabilize retail prices of food and grocery products. The testimony for the Government showed that what started as an effort on the part of persons engaged in the food and grocery business to secure the enforcement of the

Unfair Trade Practices Act of California gradually developed into a price fixing and stabilization scheme. Thus, the starting point of the conspiracy dealt with a legal venture; *i.e.*, the association of various persons to assist in the enforcement of the California law. Evidence consisting of declarations of alleged co-conspirators showed that the association departed from the original object and started illegally to fix prices. At the conclusion of the Government's case it moved to apply to all of the defendants evidence which had been received subject to later connection as to certain defendants. In denying this motion in respect of several defendants who were not shown, by independent proof, to have been parties to the unlawful part of the plan, the court said (43 Fed. Supp. at p. 973):

> "But unless the passage from the legal to this illegal object is brought home individually to the various defendants, mere membership in the Bureau, mere contributions toward its support, or the collection of the tax on milk by wholesalers from retailers for the use of the Bureau, are not sufficient to charge the individual members—be they persons or groups—with these acts.
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> "* * * Some of the defendant organizations are co-operatives—groups consisting of hundreds of petty tradesmen. It would be wholly unfair to charge this group with the actions of some of their officers in attempting to bind them to an illegal act, unless it be shown that the matter was brought up and explained at some meeting and that the nature of the activity was clearly understood by the membership. Our law abhors crime by association. To say that a hundred grocers, bound together in a cooperative, should be found guilty of the violation of a statute of the United States because one or two of their officers or directors were also on the Board of the

Bureau, would be applying to criminal law the civil law of agency. This cannot and should not be done."

The Government has consistently misconceived the theory of the declarations rule and paid no attention to its inherent limitations.[46] For example, the Government from the outset has contended that the mere showing of the existence of patent license agreements between USG and its respective licensees establishes a common program which binds every party with all the statements and acts of every other party (R. 500-507). That still appears to be its contention (Gov. brief, pp. 195-200). It certainly cannot be the law that a company which makes a lawful patent license agreement impliedly authorizes under the laws of agency and partnership all other licensees to speak and act on its behalf. The Government has two misconceptions: that similar action is synonymous with concerted action, and that a simple lawful act joined in by two parties can be automatically enlarged into a widespread program of illegality.

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[46]In a footnote on page 195 of its brief, the Government requests this Court to express its views on a ruling by the Trial Court that where one defendant has admitted the authenticity of a document under Rule 36 that document may be considered as binding upon all defendants under the declarations rule. This is a request for an advisory opinion since the Government does not, indeed could not, assert reversible error on the basis of the ruling below. The Trial Court did not unqualifiedly reject the documents in this category but merely imposed upon the Government the duty of calling a witness to authenticate them in the normal way. Moreover, even now the Government does not point to anything in these documents which would have had any material effect upon the decision below.

It is submitted that the Trial Court's ruling was correct under the declarations rule that admissions of one alleged co-conspirator are not binding on another unless made in furtherance of the conspiracy. Clearly admissions of a defendant in connection with pre-trial discovery procedure are not within that rule.

Point IV

THE FINDINGS OF THE TRIAL COURT ARE SUPPORTED BY AMPLE EVIDENCE AND ARE NOT SUBJECT TO REVIEW IN THIS COURT.[47] THE GOVERNMENT'S DISCUSSION OF ALLEGED FACTS DISREGARDS THE FINDINGS AND PRESENTS A DISTORTED, INACCURATE AND MISLEADING VIEW OF THE CASE.

In this Court, as it was in the Court below, it is difficult to grasp just what the unlawful conspiracy is that the Government claims the evidence establishes. A study and analysis of even the Government's present voluminous discussion of the alleged facts makes it apparent that the claim of conspiracy rests on nothing more than the fact that USG and the several other companies entered into patent license agreements. It is true, as the Government emphasizes, that many people discussed the matter of taking licenses and wrote letters and memoranda on the subject; but that is all the evidence amounts to. We have already argued that a plurality of licenses is not an unlawful con-

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[47]Rule 52 of the Federal Rules of Civil Procedure provides that "Findings of fact shall not be set aside unless clearly erroneous and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses." This does not increase the scope of this Court's review but merely restates the existing rule. *District of Columbia* v. *Pace*, 320 U. S. 698 (1944). In *Adamson* v. *Gilliland*, 242 U. S. 350, 353 (1917) it was said that so long as a finding " 'depends upon conflicting testimony, or upon the credibility of witnesses, or so far as there is any testimony consistent with the finding, it must be treated as unassailable.' " The Government cannot "expect this Court to reverse a decree of the Circuit Court merely upon a doubt created by conflicting testimony." *Morewood* v. *Enequist*, 64 U. S. 491 (1859). See also *Zeckendorf* v. *Johnson*, 123 U. S. 617 (1887), *Lawson* v. *United States Mining Co.*, 207 U. S. 1 (1907).

spiracy, but is sanctioned by the *General Electric* case (*supra*, pp. 59-66). If that proposition of law is correct, it cannot be that the licenses became unlawful simply because the parties discussed them.

The Government's brief, however, suggests at times that the unlawful conspiracy consists of the additional factor that the licenses were taken by concerted action. However, if a plurality of licenses is lawful under the *General Electric* case, it does not become unlawful if the licenses are signed in concert. The Trial Court so ruled on the obvious premise that "It is not unlawful to agree to do what is not unlawful when done" (R. 4107). Notwithstanding this ruling, the Trial Court also found on the facts that the defendants did not act in concert or, as the Government claims, associate themselves in a plan to blanket the industry under patent licenses and stabilize prices (FF. 118, R. 4167).

The Government unjustifiably argues that the Trial Court examined the evidence piece-meal and not in the light of the actual charges of the complaint (Gov. brief, pp. 190-194). In its opinion, the Trial Court recognized that "evidence as to conspiracy is, of course, to be considered as a whole—not piece-meal" (R. 4016). Pursuant to that rule the Trial Court did examine all of the evidence as is clear beyond all doubt from the opinion in the case. It is doubtful whether any more careful and considered opinion has been rendered by a court in the trial of any other case.

One of the charges in the complaint was that the licenses were sham licenses (Par. 46, R. 10-11) and Government counsel consistently urged below that defendants had used their patents as a mere subterfuge by which they illegally controlled prices and production. The Trial Court properly

found that the patent licenses were not "sham agreements to disguise illegal purposes" (FF. 30, R. 4148). But the Court did not conclude, as the Government asserts, "that an unlawful conspiracy could not be shown unless it involved a showing of 'sham'" (Gov. brief, p. 193). On the contrary it is clear from the very reference to the Trial Court's opinion which is cited by the Government that the Trial Court not only considered whether the licenses were "sham" licenses signed to give color of legality to illegal purposes" but also whether "the operations of the defendants were carried beyond the proper limits of the USG patent monopoly" (R. 4105).

From what has been said, it might seem that any dispute upon the facts is of little consequence in this case since the decision must ultimately rest on the question of the legality of the plurality of license agreements. It might seem too that an extended discussion of the facts is unnecessary since the Government seriously challenges only one finding of fact, namely, No. 118, that the defendants did not associate themselves in a plan to blanket the industry with patent licenses and stabilize prices. However, the good faith of the licenses is an issue, and since the Government's brief presents such an erroneous and distorted view of the facts, it is necessary to consider the Government's assertions regarding the facts in detail.

The Findings of the Trial Court in Respect of the Main Patent License Agreements

We have discussed the findings of the Trial Court generally in so far as they concern the circumstances surrounding the execution of the main license agreements in-

volved in the case (*supra,* pp. 4-23). In addition the Trial Court made a number of findings of fact relating to the good faith of the parties in signing the licenses.

The Trial Court found that the principal patents upon which the main board license agreements in the instant case were founded, to wit, the Utzman (No. 1,034,746) Haggerty (No. 1,500,452) and Roos (Nos. 2,017,022, 2,079,338 and 2,080,009) patents, were product patents upon a building material called plaster board or wallboard. The patents were upon the entire product, not merely upon the edge of the board in the Utzman patent, or upon the starch in the Haggerty patent, or upon the bubbles or air cells in the Roos patents. These patents covered fundamental developments in the gypsum board manufacturing industry. It was further found that the closed edge board of the Utzman patent largely displaced the open-edge board under the demand of the trade for the better product, that the Haggerty patent solved the "peeler" problem in the gypsum industry and made possible modern high-speed production of gypsum board, and that the Roos patents solved the "sawdust" problem and produced a superior product with reduced manufacturing costs (FF. 24, R. 4145-4146).

The Trial Court also found that no substantial distinction can properly be drawn between the instant case and the *General Electric* case in respect of the importance of the patents, the terms and conditions of the license agreements and the price bulletins and the number of the licenses (FF. 25, 26, 27, R. 4146-4147, Conclusions of Law 2, 3, R. 4167).

The Trial Court further found that the license agreements were executed as *bona fide* agreements and were not

sham agreements executed to disguise illegal purposes (FF. 30, R. 4148). It was also found that the license agreements were executed upon the faith of the *General Electric* and *Bement* cases and that prior to the making of the licenses the parties thereto had been advised that such licenses giving price control to the licensor were proper and that they had a right to enter into them under the patent laws (FF. 31, R. 4148).

The Trial Court found that the license agreements required the licensees to pay, and they did pay, substantial royalties; and many of them were entered into, as noted above, in settlement of infringement litigation and in consideration of the payment of substantial damages, which damages were paid (FF. 32, R. 4148).

The Trial Court found that commencing as early as 1926 when the Beaver license was negotiated, USG offered terms of settlement of infringement claims and a license to any or all of the various board manufacturers. Throughout all of its negotiations with the various companies USG insisted upon the same terms which were: payment of damages for infringement, acknowledgment of the validity of USG's patents, payment of royalties, and the right in USG to fix prices upon board made and sold under its patents. At all times USG remained firm on these terms and rigidly insisted upon such terms for all settlements and licenses (FF. 33, R. 4148-4149).

The Trial Court found that in the making of the licenses there was nothing furtive in the action of the parties. There was open negotiation and discussion between USG and the other companies in the industry of the proposed licenses and there was open discussion among the companies other than USG of their mutual problems aris-

ing out of USG's ownership and insistence upon enforcement of dominant patent rights in the gypsum board field (FF. 34, R. 4149).

The Trial Court found that the companies which became licensees did so because they desired to settle or avoid litigation and to obtain the right to use USG's patents, considering it a business necessity to be able to do so. Several of the licensees had made the closed-edge board before they had acquired the right to do so from USG, for which infringement of the Utzman patents they paid substantial damages. Also some of the licensees had manufactured board containing starch which was covered by the Haggerty patent. Numerous other patents included in the licenses were essential to the manufacturing of modern gypsum board (FF. 36, R. 4149).

The Trial Court found that although there was discussion among the prospective licensees and with USG as to the terms of the proposed licenses and of the advantages of signing them, nevertheless the decision to take a license was reached by each of the companies independently. The licensees took their respective licenses, without regard to what other companies did. Neither Griswold of American, Blagden of Beaver, nor Holland of Universal acted, nor was told to act, as agent or emissary of USG or Avery in obtaining license agreements (FF. 37, R. 4150).

The Trial Court found that certain memoranda of C. O. Brown of Certain-teed with reference to the negotiations for the bubble board and starch licenses (Exs. 227, 231) did not establish bad faith in the execution of the license agreements either on the part of Certain-teed or any other person or company. The primary reason of Certain-teed in taking a license under the Haggerty starch and the

Roos bubble board patents was that the method of manufacture was cheaper, the products could be made much lighter with resultant savings in transportation costs, and a better product resulted. Certain-teed carefully investigated the bubble board invention and concluded, about July 3, 1929, that it had merit and that a license should be taken. It had already investigated the starch situation and thought that it might be subject, on account of its own use of starch, to a claim of infringement of the Haggerty patent. When the opportunity to obtain a license under the starch patents as well as bubble board was presented, Certain-teed was glad to take advantage of it. Certain-teed was not motivated by a desire for price-fixing when it determined to take a license. There was no understanding or agreement that the starch and bubble patents or the proposed licenses would be used as a vehicle to obtain price control (FF. 39, R. 4150-4151).

The Trial Court also found that the answer of Certain-teed in USG's injunction suit and the memorandum with respect thereto (Exs. 324 and 212) did not establish bad faith in the execution of the license agreement (FF. 40, R. 4151).

The Trial Court found that the fact that for the privilege of using the patents, royalties were fixed in the license agreements at an amount equivalent to a designated percentage of the selling price of the licensees of all gypsum board manufactured by them, whether or not patented, did not establish an agreement to make only the patented product and did not establish that the license agreements were executed in bad faith. The patents were numerous and covered not only the patented board, but machines and processes in the manufacture of board, and the rights and

privileges granted were of great value to the manufacturers of gypsum board. This royalty provision was in effect a provision for a percentage of gross sales, and as such was but a convenient means of measuring the amount paid for the privilege of using the patents. It might with equal propriety have been a lump sum. This provision in the license agreements was not an attempt to impose a royalty upon an unpatented product, nor was it intended to drive open-edge board off the market, nor did it have that effect (FF. 54, R. 4154).

The Trial Court found that there were no agreements between USG and licensee companies other than those which were put into formal writing. There were no informal side agreements between USG and any of its licensees or between any of the defendants herein that they would discontinue making open-edge board or seconds of closed-edge board, or that USG would advance and stabilize the prices for board, or that any of the companies would increase their prices for other gypsum products, or that USG would continue to control prices through the use of other patents after the expiration of the Utzman patent in August, 1929 (FF. 56, R. 4154-4155).

The Trial Court found that the licenses were not executed with an intent to fix prices of gypsum board at high levels or any given levels. There was at no time any understanding or agreement or even discussion as to what the prices of gypsum board would be upon the execution of the licenses (FF. 58, 59, R. 4155).

The Trial Court found that the Government had not established its charges that the license agreements were *non bona fide* because executed with an attempt to accomplish restraints of trade beyond the proper limits of the

patent monopoly specifically (1) illegally to raise and fix at arbitrary and non-competitive levels the price of gypsum board; (2) to accomplish improper standardization of gypsum board and its method of production; (3) to raise, maintain and stabilize the level of prices of unpatented materials—plaster and miscellaneous gypsum products; (4) to effectuate improper restriction upon distribution of gypsum board, plaster and miscellaneous gypsum products; or (5) to fix prices at which the manufacturing distributors resell gypsum board (FF. 57, R. 4155). The license agreements in the instant case were not executed with an intent to obtain objectives beyond the proper limits of a patent monopoly (FF. 85, R. 4160).

Finally, the Trial Court found that the evidence (including certain evidence specially relied upon by the Government consisting in the large of intra and inter-company correspondence and memoranda relating to the terms upon which USG was offering to settle litigation and extend licenses and the advantages and disadvantages of taking licenses—Exhibits 104, 123, 124, 132, 136b, 157, 158, 185, 189, 198, 204, 205, 206 and 716—the admission in paragraph 7 of the answer of Ebsary and the testimony of Griswold, Blagden, Holland and Lenci) failed to establish that defendants associated themselves in a plan to blanket the industry under patent licenses and stabilize prices, as charged by the Government (FF. 118, R. 4167).

These are the general findings with respect to the main license agreements in the instant case. In addition specific findings on detailed matters were made which will be mentioned from time to time in the subsequent discussion. It is submitted that the discussion of evidence hereinafter set forth establishes beyond question that the findings were fully supported and in fact compelled by the evidence.

The Licenses of 1926 and 1927

As we have noted, Beaver found itself at the end of its rope in 1925 when it was adjudged an infringer of the Utzman closed-edge patent (R. 784, 874). Its predecessor, Bestwall, had tried and lost, both in the District Court and in the Court of Appeals, and it was obviously a forlorn expectation that the appellate court might reverse itself in favor of Beaver on substantially the same case (FF. 6, R. 4134).

Naturally Beaver had to get out of the situation as best it could. Blagden, president of Beaver, realized his case was hopeless and therefore made overtures to Avery, president of USG. At a meeting in December, 1925, Avery and Blagden discussed the possibility of settlement and Avery specified the terms of settlement as follows: (a) payment of damages by Beaver for past infringement; (b) Beaver's acknowledgment of the validity of USG's patents; (c) payment of royalties; and (d) the right in USG to fix the prices of gypsum board made and sold by Beaver under the Utzman closed-edge patent (R. 786, 870-871). From that time forward those were the same unyielding terms of Avery and USG for any and all of the companies in the industry. There were no plans or schemes or conniving. If any company wanted a license on those terms it got one. If any company chose to violate USG's patent rights without a license, it was sued as an infringer. If any company chose to try to get along without the improvements of the superior patented products, it was free at all times to do so (FF. 6, 33, 34, R. 4134, 4148-4149). Obviously this is not the stuff of which conspiracies and concerted action are made.

After negotiations which took place largely in June and July, 1926, USG and Beaver settled their controversy on July 29, 1926 (Ex. 1, R. 4205, 450). The settlement agreement involved the cash payment by Beaver of $250,000 and the granting by USG to Beaver of a license to use the Utzman closed-edge patent and some sixty or more other patents and applications for patents involved in the manufacture of gypsum board. Although price control extended only to the expiration of the Utzman closed-edge patent on August 6, 1929, the license agreement continued under all the other patents until February 10, 1937, the expiration date of another Utzman patent covering the machine for manufacturing closed-edge board.

In describing the reasons of Beaver for settling its litigation with USG and taking a license, Blagden testified (R. 874-875, 880):

> "Well, we had lost the patent suit on two occasions, that is, we had lost our case with the United States Gypsum Company on two occasions, and after studying the situation deeply I felt that we would lose in a higher court, and if we could possibly get together and settle the matter it would be best to do so.
>
> * * * * *
>
> "We had definitely proven that the closed-edge board was the cheapest board to manufacture, and we had tried every other way, and even though we had to pay a royalty we thought it would save us money in the long run.
>
> "Q. And what about the demand of your customers for this type of closed-edge board as opposed to open-edge?
>
> "A. They were emphatic about that.
>
> "Q. They wanted it, that is?
>
> "A. They wanted the closed-edge.
>
> * * * * *

"Q. And were you concerned, and was it a reason for your decision to take a license, about the contingent liability which was constantly hanging over the company's head by way of liability for damages?

"A. Yes, sir."

* * * * *

"We only wanted to make the one board, and that was the closed-edge board, and that is why we signed the agreement."

Shortly after the decision against Beaver in August, 1925, USG instituted suits against American (R. 694), and Universal (Ex. 2, R. 4226, 450), for infringement of USG's closed-edge patents and served a notice of infringement upon Niagara (R. 546-547, FF. 7, R. 4135). In an effort to meet the demands of the trade for the closed-edge product and to develop a board to compete with USG's product, American developed a modified closed-edge board made by Clark, the superintendent of the American plant (R. 480-482). On July 31, 1920, Clark filed an application for a patent covering this type of board, but a patent application for a similar type had been previously filed on January 2, 1920, by Birdsey of USG (R. 481). The Birdsey patent was issued on November 9, 1920, and on May 10, 1921, an interference between the Birdsey patent and the Clark application was instituted (R. 481). There ensued a bitter contest in the Patent Office and in the Courts which resulted in the award of priority to Birdsey by the Commissioner of Patents and the ultimate affirmance of this decision by the Court of Appeals for the District of Columbia on February 1, 1926 (R. 693-696). Thus, in early 1926, American likewise was near the end of its rope in making a closed-edge board.

Universal had been infringing USG's patents. In September, 1926, it settled with USG and entered into a license agreement. The settlement and license in this instance was similar to that made with Beaver except that the lump sum payment covering damages amounted to approximately $35,000 (Ex. 2, R. 4226, 450, FF. 7, R. 4135). The testimony of Holland, President of Universal, makes it clear that Universal regarded closed-edge board as a far superior product to open-edge board (R. 888, 897-898, 932-934).

In March, 1927, Atlantic entered into the manufacture of gypsum board for the first time and requested and obtained a license from USG (R. 710, FF. 7, 62, R. 4135, 4156). Griswold of American testified to the effect that he talked to Fuller and Channing of Atlantic when they asked him for advice as to the necessary equipment for construction of a board manufacturing plant (R. 710-712). Griswold advised Fuller and Channing that closed-edge board was a better product, cheaper to make, and had fewer manufacturing difficulties (R. 712). In October, 1926, he obtained from Mr. Avery and forwarded to Atlantic a copy of the form of license (Exhibits 121, 122, and 123, R. 5275-5277, 563-565) and had nothing further to do with the Atlantic license which was signed some six months later (R. 713).

In April, 1927, Texas took a license from USG. Prior thereto it had equipped its plant to make closed-edge board and USG was threatening to sue if such board were produced (R. 6289). Chism of Texas testified that prior to the license Texas was making an open-edge board which proved to be very unsatisfactory to the trade and caused his company to lose business. The cost of manufacture was high due to peelers and broken edges and the open-edge

product was getting increasingly difficult to sell to the trade. Texas knew that the closed-edge board was a patented product and that USG owned other patents on the machine necessary to make it and covering board having special features such as the recessed edge. Texas took the license because it wanted to get the right to make board under USG's patents and, after taking the license, it immediately commenced the manufacture of closed-edge board which is the type of product it has made at all times since (R. 3479-3481).

These are the essential facts surrounding the first four license agreements. The Government, however, stresses a number of exhibits, all declarations received subject to proof of conspiracy by evidence *aliunde* the declarations, which in the last analysis prove nothing more than that many people in the industry were interested in and talking about licenses.

Great emphasis is placed by the Government on Ex. 185 (R. 5338, 814), a memorandum written in December, 1925, by Blagden's attorney (R. 813) and setting forth various possible results which might follow from the USG-Beaver litigation (Gov. brief, pp. 17-19, 207-208). Many of the possibilities which are mentioned in the memorandum are predicated upon a reversal of the decision in favor of USG by the Circuit Court of Appeals. The memorandum concludes with the alternative of a settlement and license, pointing out that this would be the most advantageous course for USG to pursue because Beaver would acknowledge the validity of USG's patents, pay damages and royalties, use its best endeavors to induce other manufacturers to accept licenses, and permit USG to control prices and take a dominating position in the industry.

The evidence shows that Exhibit 185 played no part whatsoever in the settlement negotiations of Beaver and USG, and was of no consequence in any other connection. It was not even in existence on the date of the conference at which Avery set forth USG's terms for settlement which were ultimately accepted by Beaver (R. 813, 871). The document was obviously prepared in an effort to enhance Beaver's bargaining position but it is predicated in large part on an unexplained weakness of USG's position in the Circuit Court of Appeals—obviously a poor argument since, as we have noted, the same Court of Appeals had previously sustained USG's position in substantially the same case. Blagden was reluctant to send the memorandum to Avery because he did not think it presented an argument which would appeal to him (R. 788, 870-871). There is no suggestion that this Blagden memorandum was ever seen or its contents discussed by any other persons in the industry. Blagden testified that he did not discuss with Avery the matter of all companies settling disputes and taking licenses (R. 800-801).

The Government criticizes (Brief p. 20) the Trial Court because it failed specifically to mention one phrase in summarizing Exhibit 185 in its opinion. Sufficient answer to this criticism is that the Trial Court thoroughly considered the exhibit as a whole. This particular exhibit was 14 pages long. It is ridiculous to contend that the omission of one phrase in a summary of the exhibit is error. Furthermore, the Trial Court properly considered the exhibit in the light of Blagden's testimony regarding it, hereinbefore referred to.

The Government also criticizes a statement in the Trial Court's opinion that Blagden testified that he did not discuss

with Avery the matter of all companies settling disputes and taking licenses (Gov. brief, p. 20). The basis of this criticism is an involved argument that the witness really said he did not remember having had such discussions rather than that they did not occur. We submit that the argument is based on a distinction without a difference. In any event, the record fully supports the precise statement contained in the Trial Court's opinion (R. 800-801).

It seems to be the Government's purpose to convince the Court that at or about the time his company settled its litigation and took a license, Blagden talked from time to time with other members of the industry on the subject of settlement and license. But that establishes nothing. Beaver was the "guinea pig" of the industry and all the other companies were interested to know what it was doing in connection with its litigation concerning gypsum board (R. 790, 874). Naturally all members of the industry were comparing notes on their common predicament of being caught as infringers. Blagden answered inquiries by others as to what was happening between his company and USG and, having determined that settlement was the best thing for his own company, of course he recommended that the others would be better off with a license agreement than with a lawsuit for infringement (R. 790, 844, 860, 862, 874-876).

The Government conceives Exhibit 185 to be the commencement of its alleged conspiracy, and argues that from that point on, Blagden and Avery were joined in an unlawful concert of action (Gov. brief, pp. 17-19). The argument is inconsistent with another proposition of the Government, *i.e.*, that the motivation for the conspiracy was the great need for price stabilization (Gov. brief, pp. 53-55). But prices were admittedly stable in 1925 and 1926 when

gypsum board was selling at $30 per 1000 square feet, a higher price than has existed ever since (R. 480, 571, FF. 88, R. 4161). The fact of the matter is that there is abundant evidence that Blagden had no deal with Avery to promote license agreements. His company settled its lawsuit and took a license without any consideration whatever as to what the other companies in the industry might do on the subject (R. 874). Blagden had nothing to do with the later licenses, of Universal in September, 1926, Atlantic in March, 1927, and Texas in April, 1927 (R. 875-876). Blagden left the gypsum industry early in 1928 (R. 777, 878). All of the foregoing considerations amply support a finding that there was no concerted action between Blagden of Beaver and Avery of USG (FF. 37, R. 4150).

The Trial Court found that Blagden did not act, nor was he told to act, as agent or emissary for USG or Avery in obtaining license agreements and that the Avery-Blagden discussions involved only the settlement of the USG-Beaver infringement litigation (FF. 37, R. 4150). The findings are amply supported by the evidence and the Government assigned no error as to them (R. 4178-4186).

In its discussion of alleged facts, the Government stresses the circumstance that in connection with the Beaver settlement and license, Beaver transferred to USG a number of patents and patent applications bearing on the closed-edge type of board (Gov. brief, p. 22). This was a normal incident of the final settlement of all controversies between the two companies in respect of the infringement litigation. It is sufficient to note that during the trial the Government expressly stated that it did not contend that there was anything wrong or unlawful about this transfer of patents (R. 817, 3911-3913).

From what has been said concerning Blagden, it is improper for the Government to contend that "Blagden continued his efforts to induce other manufacturers of board to become licensees, as he stated he would do in Exhibit 185" (Gov. brief, p. 24). Blagden engaged in no efforts to induce others to become licensees (R. 819). Nor did he state that he would do this, or anything else, in Exhibit 185, which merely lists a number of alternatives none of which was shown to have been acted upon.

After the settlement and license between Beaver and USG, Blagden wrote to Avery in a light vein on the occasion of paying Beaver's first month's royalties. Avery replied that he assumed that Blagden's comment about the payments hurting was playful. In turn, Blagden wrote:

> "You are right—my comment was entirely a playful one. I sincerely believe that the arrangement agreed upon by our two companies will work out to the mutual advantage of both. I feel that the 'entente cordiale' that has started between our companies is only a beginner and that if we play the game right, it should bring about big things" (Ex. 189, R. 5349, 838).

This obviously is a statement that if the settlement and license are lived up to in good faith it will be for the benefit of both companies. But the Government seizes upon the phrase last quoted and the testimony of Blagden that he meant "stabilizing prices in the industry" as evidencing an unlawful combination (Gov. brief, pp. 24-25). But again the Government neglects to give the Court the full story. In connection with this subject, Blagden's prior direct testimony with respect to Exhibit 189 reads (R. 837-838):

> "Q. In the second paragraph of that letter, you state: 'I feel that the entente cordiale that has been

started between our companies is only the beginning, and that if we play the game right it should bring about big things.' Do you see that, sir?

"A. Yes, sir.

"Q. What did you mean by that?

"A. Well, that all our bickering and squabbling and fighting was over, and that from there on everything ought to be all right.

"Q. What did you mean by 'entente cordiale'?

"A. The friendship between the two companies.

"Q. Were the companies friendly before that, or not?

"A. No, sir.

"Q. They weren't friendly?

"A. We hadn't been.

"Q. And what did you mean by 'playing the game right'?

"A. Living up to the agreement.

"Q. That is, obeying the published prices of USG?

"A. Yes, sir.

"Q. Now, at that time, how many companies had taken out a license with USG?

"A. I don't remember; I was only referring to our own arrangement."

and his subsequent testimony reads (R. 876-877):

"Q. On page 1608 of your testimony, the part which was read to you this morning, and particularly beginning at line 11, all in reference to Exhibit 189, which is your letter to Mr. Avery of October 1, 1926, this question and answer appear:

'Q. And what did you mean by "playing the game right"?

'A. Living up to the agreement.'

"Isn't it a fact that in that answer, when you used the word 'agreement', you meant license agreement?

"A. That is right.

"Q. Now wasn't your use of the phrase 'entente cordiale', in the third sentence of the second paragraph of that letter, merely your expression of the better feeling that might result, probably would result, from the settlement and license which you had taken?

"A. Yes, sir.

* * * * * * *

"Q. You felt, didn't you, Mr. Blagden, that your company should live up to the agreement?

"A. Absolutely."

The foregoing testimony fully justifies the Trial Court's statement concerning Exhibit 189 and the "entente cordiale" that Blagden testified that the "bickering and squabbling and fighting" which had been going on between Beaver and USG was over upon the signing of the license agreement, and that the two companies were again friendly, that the phrase "entente cordiale" was merely his expression in respect of the better feeling that probably would result from the settlement and license and by the phrase "if we play the game right" he meant living up to the license agreement and obeying the published price of USG and in this respect he was referring only to Beaver's agreement with USG (R. 4111).

The greater part of the Government's statement of alleged facts for this period has to do with the testimony and writings of Griswold of American (Gov. brief, pp. 20-22, 25-40). The substance of such evidence is that Griswold discussed the matter of a license with a number of gypsum manufacturers and recommended that they settle their infringement litigation with USG and take licenses (R. 690-

691, 695-697, 701, 702, 704-705, 713, 719). The reasons for Griswold's activity are readily understandable. He recognized the value of the closed-edge product from the time when his company first started the manufacture of gypsum board in 1919 and always wanted to make it (R. 478, 480, 570, 575). At that time he had tried unsuccessfully to get a license from USG (R. 478-480). During the next seven years his company carried on a bitter litigation with USG in the Patent Office and in the courts on the Clark-Birdsey interference and in connection with USG's infringement suit (R. 480-482, 485-487, 642). The adverse decision of the Court of Appeals of the District of Columbia in February, 1926, impressed upon Griswold the need for making a settlement with USG for, as of that time, American had the choice of making the peace with USG or of manufacturing an inferior type of open-edge board (R. 694-695).

During this period Griswold was working on a merger of his company and most or all of the other manufacturers except USG (R. 568-570, 632-633). The evidence is clear that at all times the thing which was uppermost in Griswold's mind was the success of his merger and continual reference is made to the subject throughout his correspondence (R. 568, 618-619, 632-633, 685-686, 691, 703, 710, 714-716, 717-719, 724-725, 727, 728-729). Neither Avery nor USG had anything to do with the promotion of this venture (R. 703). Griswold of course knew that his plan of merger could not be consummated with outstanding infringement suits and the existence of a very real possibility of judgments for infringement damages against many or all of the constitutent companies (R. 568-569). Griswold's firm conviction that a gypsum board manufacturer had to make closed-edge board in order to continue in business

made it imperative that he remain in a position to obtain a license for his merged company. In addition, Griswold was not without hope that he might get special concessions in connection with USG's claim against his own company by giving Avery the impression that he was promoting USG's interests (R. 687). Griswold testified unequivocally, however, that at no time was he an agent or emissary of Avery's in trying to get other companies to take a license (R. 691).

It is in the light of this background that the testimony and writings of Griswold are to be considered. In May of 1926 there was a discussion among several gypsum board manufacturers of the matter of settling the claims of USG and taking licenses (R. 520-521). Griswold said that the discussion had to do with what would face the manufacturers if USG finally won the pending infringement suits and the serious position in which such an eventuality would place all companies concerned. All realized that if they had to manufacture only an open-edge type of board, they would be up against a serious handicap in carrying on their business (R. 525).

The subject of the foregoing meeting is discussed in Exhibit 104, a letter of May 12, 1926, from Griswold to the President of his company (R. 5260, 514). This was a document received in evidence subject to the declarations rule. The Government stresses a remark in that letter that "According to the plans we have we figure that there is a possibility of us holding the price steady on wallboard for the next fourteen or fifteen years which means much to the industry" (Gov. brief, p. 21). Griswold explained that at the time he thought that the Utzman patent had fourteen or fifteen years to run and he assumed that if licenses were

taken USG would fix ~~prices under~~ that patent and that, as a result of legal price-fixing, the price of wallboard would remain fairly stationary during the life of the patent (R. 513, 701). Therefore it is clear that Griswold was not talking about a plan in the sense of a common program agreed upon by the parties. Moreover, Griswold's reference in the same letter that Blagden had talked with Avery "on the matter of settling all disputes and litigations between the wallboard manufacturers by entering into a licensing arrangement" was denied by Blagden who also stated that he did not discuss any plan for "holding the price steady on wallboard for the next fourteen or fifteen years" (R. 800-801).

Among the writings of Griswold[48] relied on by the Government, all admitted in evidence subject to the declarations rule, are Exhibits 106 and 107, an exchange of letters between Griswold and Avery, dated June 2, 1926, and July 6, 1926, respectively (R. 5262-5263, 543, 546). Griswold refers to a meeting with Haggerty of National, states that Blagden told him that a draft of license was being prepared, requests a copy of the form of contract for forwarding to Texas, and states that it would be nice if a copy of the form of contract could be available on the occasion of the next meeting of the trade association of the industry. Avery acknowledges Griswold's letter and mentions that the negotiations for the settlement and license between USG and Beaver are progressing.

In connection with these exhibits Griswold testified that he had mentioned the possibility of a license to Haggerty of

[48] It is a commentary on the Government's case that Griswold, who is supposed to have lined up all the members of the industry, could not even convince his own company to take a license.

National (which was just about entering the field of gypsum board manufacture) because he hoped that that company would be a part of his merger (R. 718, FF. 9, R. 4137). He also wanted to send the form of license to Texas since Texas was to be part of the merger (R. 545, 702). To the extent that Griswold's letter states that Haggerty was "sold on the proposition", Griswold's comment is on the exaggerated side. National, in fact, became an infringer and did not take a license until May, 1929, when it settled and paid damages of $178,000 (FF. 9, R. 4137).

The Government relies on Exhibits 121 and 122 (R. 5275-5277, 563, 564), an exchange of letters between Griswold and Avery, dated October 9, 1926, and October 11, 1926, respectively. Griswold mentions a meeting with Fuller and Channing of Atlantic, newcomers to the gypsum business. He reports favorably on his opinion of these men, refers to a discussion with them on the advisability of taking a license and suggests that a copy of the form of license be sent to them. Avery, in reply, sends a copy of the form of license to Griswold for forwarding to Fuller and Channing, pointing out that he (Avery) has not met these gentlemen. As we have pointed out, Griswold testified that Fuller and Channing had consulted him on the subject of the necessary equipment for building a gypsum board plant and, at the time, he recommended that they try to obtain a license (R. 712). Except for the forwarding of a form of license to Fuller in October, 1926, mentioned in these exhibits, Griswold had nothing further to do with the Atlantic license which was not made until six months later, in March, 1927 (R. 712-713). On this state of the evidence the Trial Court necessarily concluded that Griswold had nothing to do with the Atlantic license except as

stated (R. 4038). The statement in the Trial Court's opinion to this effect is clearly correct, rather than clearly erroneous as asserted by the Government (Gov. brief, p. 27).

Exhibits 123 through 135, inclusive, are letters between Griswold and Avery in the fall of 1926, and the early part of 1927, and Exhibit 191 is a related letter from Avery to Blagden dated October 19, 1926 (R. 5278-5287, 5351, 565-567, 582-587, 590-591, 840). These exhibits are discussed on pages 28-33 of the Government's brief. The net result of all this correspondence is that Griswold discussed the matter of a license agreement with various gypsum board manufacturers, that some of the companies (including his own) told Griswold that they were not satisfied with the license offered and that USG refused to make any concessions whatsoever from the terms of settlement and license which had been given to Beaver and Universal. The Government emphasizes a statement in Exhibit 123, Griswold's letter to Avery of October 15, 1926, that a meeting of board manufacturers might be held "with the object in view of getting united action on this matter" (R. 5278) (Gov. brief, p. 28). This expresses merely a pious hope on Griswold's part and, plus the fact that the contemplated meeting admittedly was never held, negatives the Government's claim that there actually was united action (R. 714). Indeed the Government itself admits that whatever ideas, if any, Griswold or Blagden might have had about united or concerted action failed to materialize (Gov. brief, p. 30).

In Exhibit 132, Griswold's letter to Avery dated January 3, 1927, Griswold states that he "started out to deliver 100 percent of the manufacturers of board that would be willing to sign up on a license arrangement" (R. 5285). Obviously, Griswold never achieved that result.

Nor does the letter establish that Griswold had any arrangement with Avery to promote licenses. The Government concedes that Griswold stated that he was not asked by Avery to contact other manufacturers and that he had no agreement with Avery to do so (Gov. brief, p. 26). And he emphatically denied that he was an agent or emissary of Avery's. He testified (R. 691):

> "Q. During any of this period did you act as agent or emissary of Mr. Avery?
>
> "A. No, I did not.
>
> "Q. Did you have any agreement or understanding with him that you were going out to act for him?
>
> "A. Not for Mr. Avery or for the United States Gypsum Company.
>
> "Q. Did you have any agreement with Mr. Blagden, or anyone else, that you were going out and act for him or anyone else?
>
> "A. No, I did not. As I remember it, I had never met Mr. Blagden until that first meeting, May 12, I think it was, the date mentioned in the correspondence."

The Trial Court found that Griswold did not act, nor was he told to act, as agent or emissary of USG or Avery in obtaining license agreements and that any interest by Griswold in the settlement of litigation in the industry was motivated by concern for his own company and the merger he was promoting (FF. 37; R. 4150). The finding is not only amply supported by the evidence but the Government assigned no error with respect to it (see R. 4178-4186).

Griswold further testified that there was never any agreement among the companies as to what should or should not be done with respect to the license (R. 720). The Government's assertion that Griswold's statement to

the effect that Avery insisted on industry-wide licenses (Gov. brief, p. 26) is plainly wrong since the facts show any company could take the license or leave it as it saw fit. The very fact that the licenses were signed at different times over a period of four years is refutation of the Government's statement.

From time to time Griswold mentions Texas in his letters but, except for forwarding a draft of a form of license to Texas, he had nothing to do with that company's license with USG (R. 636, 723-726). Griswold contemplated that Texas would be part of his merger (R. 660) and that proposition is the main subject matter of correspondence between Griswold and Gloyd of Texas, illustrated by Exhibits 149 to 158 (R. 5299-5307, 630-632, 634-638). This correspondence clearly shows that Texas was not a party to any general arrangement to blanket the industry with licenses, but that it went ahead on its own initiative and took a license in April, 1927, completely without regard to what other companies were doing.

Griswold also mentions Niagara in his correspondence. He testified that he arranged a meeting between Reeb of Niagara and Avery, so that their differences might be adjusted. Griswold felt responsible for the claim for infringement which USG asserted against Niagara, because Niagara had manufactured a modified closed-edge board under the Clark method which Griswold had licensed Niagara to use (R. 546-547). Furthermore, Niagara was to be part of Griswold's proposed merger (R. 568, 618, 660, 724).

Throughout all of the foregoing the position of USG is clear and consistent, as appears from Avery's letters to Griswold. On November 22, 1926, Avery wrote (Ex. 129, R. 5283, 586):

"Your letter of the sixteenth I find on my return to the office. I appreciate your efforts with the other board manufacturers. I understand your statement of their position, and regret that we have no alternative to offer. * * *"

On December 30, 1926, Avery wrote (Ex. 131, R. 5284, 587):

"As the attempts made to adjust the differences between us relating to the plaster-board edge seem to have exhausted themselves without result, I am writing to advise you that we hereby withdraw the proposal made to you in this connection."

The proposal referred to was an offer of a settlement and license to American.

Finally, on February 2, 1927, Avery wrote (Ex. 134, R. 5287, 590):

"Yours of the thirty-first is at hand. I think our conversations and the correspondence we have had on the patent matter have made clear the company's position on this subject. I gather from your communication that the position of the wall board interests with whom you have conferred is of the nature indicated in your former letters. While I should be very pleased to see you and to discuss this matter, I can hold out no encouragement to you for any change in our position."

These letters alone establish beyond question that Avery and USG were not parties to any plans, schemes, or combinations of any kind. Obviously if there had been a common program to violate the law Avery would never have said, upon being advised of objections of the various companies to the form of the license, "we have no alternative

to offer." Nor, assuming a scheme or combination, would Avery have replied: "I can hold out no encouragement to you for any change in our position." The Government asserts that these letters of Avery did not close the door to further negotiations (Gov. brief, p. 34), but no evidence is given in support of the statement and the fact is that Griswold left the industry shortly thereafter when his merger program failed.

One final word on Griswold. The Government refers to his testimony that it would be natural that when a company signed a license they would manufacture the superior patented product which would have a tendency to eliminate other boards from the market which had been put out only to create a disturbance (R. 574). This is no more than a statement that certain normal economic consequences will undoubtedly follow from the execution of a license agreement. Obviously it is not in conflict with the Trial Court's finding on ample evidence that there were no informal side agreements between USG and any of its licensees to discontinue the manufacture of open-edge board or seconds (FF. 56, R. 4154).

We submit that the foregoing evidence fully supports the Trial Court's finding that there was no common program to organize the gypsum industry and stabilize prices (FF. 118, R. 4167). Up to this point, Blagden had settled and taken a license and recommended when asked that others do likewise. His company sold out to Certain-teed which was to renew the litigation with USG. Blagden had left the industry. Griswold had favored a license but he could not even convince his own company to take one. Avery at all times was willing to settle with infringers and grant licenses on the original terms but also at all times he was

unyielding toward demands for special concessions. In addition to Beaver, some companies took licenses, Universal, Texas and Atlantic. Neither Blagden nor Griswold promoted those licenses. They were taken because the respective companies wanted to use USG's patents. There was no concerted action whatsoever.

The Government contends (Gov. brief, pp. 200-207) that it has supplied adequate proof of conspiracy simply by showing that in 1925 Blagden had discussions with Avery on the subject of settlement of the Beaver litigation and a license, that USG and Beaver settled their litigation and signed a license, that Blagden recommended when asked that other companies do likewise,[49] that Griswold expressed the view that a license would have a stabilizing effect on the industry, and that Griswold talked to Avery and tried but failed "to get united action." It is this evidence which the Government contends establishes that Blagden, Avery and Griswold "were associated together in a 'plan' to bring about industry-wide licensing with price control" and asserts that all declarations may now be examined as original evidence under the rule of the *Hitchman* case (Gov. brief, p. 207). It is plain, we submit, that the evidence fails to show any common arrangement among Blagden, Avery, Griswold or anyone else to do anything.

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[49]The Government flagrantly misstates the evidence at p. 203 of its brief. Blagden testified that in talking to George M. Brown of Certain-teed he mentioned price stabilization as one of the benefits of a license agreement and that by price stabilization he meant the benefit of the license price which would be the same price (R. 831). The Government asserts that Bladgen told in substance the same thing to the other members of the industry. Blagden's testimony is directly to the contrary (R. 827-832). When Government counsel sought to have him so testify he denied the proposition pointing out that "You must remember that we were selling the company to Mr. Brown." (R. 832)

1928 and early 1929

At the beginning of 1928, Certain-teed purchased the assets of Beaver and refused to assume the Beaver-USG settlement agreement and license (FF. 9, 4136). As a result USG instituted suit in the Federal District Court in Chicago against Certain-teed and Beaver in which an injunction was sought against the distribution of the proceeds of sale to the Beaver stockholders and in which USG asserted that Certain-teed should be required to assume all liabilities of Beaver under its settlement agreement and license (Ex. 323, R. 5876, 1499, FF. 9, R. 4136.) In a preliminary proceeding Certain-teed was required to put up a million dollar bond as security for damages which might be found due to USG and George M. Brown, President of Certain-teed, and Elisha Walker, one of its directors, were personal guarantors on the bond (Exs. 325-327, R. 5951-5953, 1506, 1450).

In connection with the purchase by Certain-teed of the assets of Beaver, George M. Brown testified that the question arose as to whether Certain-teed should continue the manufacture of closed-edge board in the Beaver plants (R. 1437). Blagden of Beaver had urged that Certain-teed should carry out the Beaver agreement with USG and recommended that Certain-teed should assume the Beaver-USG license (R. 877-879). Blagden arranged a meeting between George M. Brown and Avery on February 29, 1928, for the purpose of trying to work out an arrangement whereby Certain-teed would assume the Beaver license (Exs. 195, 196, R. 5353-5354, 844, 1442). Avery and Brown were unable to arrive at any agreement (R. 1438-1442). At this time George M. Brown felt, contrary to the views of others in the Certain-teed organization, C. O.

Brown (R. 1222-1223), Whittemore (R. 1398-1399), Nelson (R. 1475, 1490), that Certain-teed could continue successfully in the gypsum board industry with an open-edge board, but he later became convinced that it was necessary for Certain-teed to make the closed-edge product (R. 1440, 1446-1447, 1455-1456).

The Government's discussion of alleged facts gives the erroneous impression that statements made and letters written in connection with the sale of Beaver to Certain-teed and the resumption of the litigation with USG were applicable to the industry generally (Gov. brief, 41-55, 203). For example, we have already noted that one of the benefits of a license which Blagden mentioned to George M. Brown was a more stable price (*supra,* p. 110). Blagden testified that this statement was made in connection with the sale of the Beaver company to Mr. Brown and was not a topic which he discussed with other members of the industry (R. 830, 832).

The meeting of Blagden, Brown and Avery on February 29, 1928, resulted from an attempt by Blagden to settle the controversies between Certain-teed, as Beaver's successor, and USG, and was not part of any program of concerted action in the gypsum industry. On the contrary, it appears that concerted action was probably the thought which was most remote in the minds of the parties (R. 1438-1440, 1450, 1463). The effort at settling the differences of the parties failed and George M. Brown, obviously in the heat of controversy, composed Exhibit 212, a document heavily relied upon by the Government (Gov. brief, pp. 41-43, Ex. 212, R. 5376, 1485). In this memorandum Brown stated that at a meeting "yesterday", USG insisted upon a license agreement running until 1937, but that Certain-teed

was only willing to take the license until the expiration of the "main patent", in 1929. The memorandum further states that open-edge board can be sold although it is recognized that trade will be lost by the manufacturer of the open-edge type product. Reference is made to the suit instituted by USG and it is stated that the action should be defended and an answer filed alleging that the suit was commenced "not in the interest of royalties but for the sole purpose of trade domination, monopoly and price control".

The Government also relies on Exhibit 324 (R. 5916, 1499), a copy of the unverified answer of Certain-teed filed in the USG suit containing several conclusional allegations that the USG license is in violation of the anti-trust law (Gov. brief, pp. 42-43). This document was received in evidence only as a possible admission on the part of Certain-teed and not as binding on any other defendant in the case (R. 1499, 1503, 1505). Obviously neither the answer nor the memorandum is in furtherance of any common purpose so that the documents would not be binding on other defendants under the declarations rule. However, the documents do not aid the Government's case. In the first place, they disprove rather than prove concerted action. In the second place they recognize in accord with the contentions of defendants that closed-edge board is a superior product demanded by the trade and that business would be lost if the manufacturer was unable to make it. The references to USG's interest in trade domination, monopoly and price control are mere conclusions, and were unquestionably prompted by the over-zealous sentiments of George M. Brown faced with USG's substantial claim for damages. It is clear that these conclusional allegations were made solely for the purpose of the lawsuit. Brown expressly

states in Exhibit 212 that Certain-teed would be willing to take a license until 1929 (R. 5376-5377). It is inconsistent for him to argue in the same breath that such a license is unlawful and unenforcible. Moreover, in May, 1929, Certain-teed settled its lawsuit with USG and signed a license agreement (FF. 9, R. 4136-4137). Consequently, as the Trial Court concluded (R. 4044, FF. 40, R. 4151), the only reasonable inference is that Certain-teed ultimately reached the conclusion that its statements concerning USG were erroneous.

The Government in its brief (pp. 44-46) quotes at length from a Griswold letter dated April 12, 1928, to the president of his company, which of course is a declaration, containing an implication that Griswold brought about license agreements between USG and Beaver, Universal, Texas and Atlantic (Ex. 141, 5292, 605). Griswold conceded that any such implication was not in accord with the facts (R. 719). The letter also mentions that Avery told Griswold that USG would drop its suit against Certain-teed if Certain-teed would carry out the Beaver license. That establishes nothing for the very purpose of the lawsuit was to compel Certain-teed to assume the Beaver agreement. The observation of Griswold at the concluding part of this letter that the plaster market would never be straightened up or stabilized so long as the board market remains as it is, does not prove a combination to accomplish stabilization. At this time, prices in the industry had become very low with the result that many companies were selling board and other products below cost (R. 664-665, 902-903, 966, 1388). Griswold firmly believed that the reason for the low prices which were driving many companies toward bankruptcy was the litigation, dissension

and bad feeling throughout the industry (R. 663-664, 721-722). His remark, as well as his testimony, that a stable price on board would undoubtedly improve plaster prices (R. 622) was but the statement of an economic truism.

In 1928, Holland became president of Universal and immediately commenced a struggle to keep that company out of bankruptcy (R. 887, 896, 961-962, 966-967). Holland, like Griswold, attributed the chaotic conditions in the industry to the litigation and dissension (R. 966). Since the future of his company was seriously endangered by such conditions, Holland sought in the fall of 1928 to bring about better conditions by formulating fair trade practice rules for the members of the industry under Federal Trade Commission guidance (R. 911-913, 969-971). Another method in which he sought to save his company from bankruptcy was through an attempted merger of various small manufacturers, such proposal having been promoted by Blair & Company, bankers (R. 896, 967-969). Moreover, Holland sought to clear up the litigation in the industry and frankly testified that he would have liked to have all companies make a closed-edge product which was a better product (R. 897-898, 935, 966).

It is the Government's theory that Holland took up the alleged program to blanket the industry with license agreements and stabilize prices as the emissary of USG (Gov. brief, pp. 55-61; 210-213). Holland emphatically denied this contention (R. 971):

> "Q. Now is it true, Mr. Holland, that either at that time or any other time you were a representative of USG?
>
> * * * * * * *
>
> "A. No.

"Q. And did you ever agree, or have an understanding with USG or anyone in that company that you would promote any plan looking toward the licensing of all the industry under price-fixing agreements?

"A. No, sir."

As indicative of the lack of any concerted action between Holland and Avery, the latter being the one whose efforts the Government would have this Court believe were primarily responsible for the consummation of the alleged agreement to blanket the industry with licenses and price-fixing, Mr. Holland stated (R. 971-972):

"Q. Isn't it a fact that on such occasions as you talked with Mr. Avery in 1928 and 1929, you found him somewhat disinclined to discuss the matter of settlement and the license * * *?

"The Witness. He was a very hard man to reach, he rather ignored me most of the time in my efforts to bring about a discussion."

The Government's reliance on letters of Holland (all declarations) as establishing group action is unwarranted (Gov. brief, pp. 48-50). Holland's letters such as Exhibits 145 and 147 merely show that he was interested only in resolving the differences between the various non-licensee companies in litigation with USG in the hope that the cessation of litigation would bring about better conditions (Exs. 145, 147, R. 5296, 5298, 627, 638). It appears that in the latter part of 1928 Holland met with representatives of non-licensee companies and urged the other companies to settle their litigation and pay their infringement damages and take licenses (Ex. 203, R. 5367, 1331). However, nothing came of that advice (R. 1356-1358).

The Government criticizes the Trial Court's summary of Exhibit 204, a letter of Holland to Haggerty dated January 7, 1929, concerning the reluctance of Kling of American to do anything to settle its litigation with USG (Gov. brief, p. 55; Ex. 204, R. 5369, 936). Holland complains that Kling is inconsiderate for not letting anyone know what he proposes to do so that the others could be governed accordingly. The Trial Court summarizes this letter stating that "Holland wrote Haggerty of National that an effort should be made to hold another meeting of those interested in the board situation; that American cannot hope to gain by delaying the settlement because this will demoralize prices throughout 1929" (R. 4103). We submit that the Trial Court's summary was fair particularly in view of Holland's testimony that he hoped that other board manufacturers would take out a closed-edge license and that he urged the various board manufacturers to do so. (R. 900-901, 932-935). All of this evidence stresses the lack of a joint program.

Haggerty's letter to Holland of January 9, 1929 (Ex. 205, R. 5370, 937), points out that the price control provision of the existing licenses was operative only until the expiration of the Utzman closed-edge patent on August 9, 1929, whereas the license agreement ran until February, 1937, the date of the expiration of the Utzman patent on the machine for making closed-edge board. The Government complains that the Trial Court failed to mention in its summary of Holland's reply (Ex. 206, R. 5371, 943), the statement that Avery made it clear "that if this plan could not be worked out on the Utzman patent that there were other patents available", and a further statement that Holland is "quite sure that Avery would not be interested in negotiat-

ing settlements unless everyone involved was included" (Gov. brief, p. 59). Neither of these references supports an inference that there was any concerted action to license the industry and stabilize prices.[50] The use of the word "plan" in Exhibit 206 does not evidence concert of action. On pages 59-60 of its brief the Government seizes upon the word as creating an irresistible inference that there was a combination for the industry to take out licenses and stabilize prices. But the use of the word "plan" by Holland does not establish concerted action or combination. What the Government set out to prove was a "common plan" (Gov. brief, p. 200) which is substantially different from a single person's "plan" or idea which is the sense the word was used in Holland's letter (R. 939-940). The Government erroneously argues that the specific proposition that Holland favored other manufacturers taking licenses establishes the general proposition that all defendants were engaged "in a conspiracy to organize the gypsum industry and stabilize prices as charged" (Gov. brief, p. 60). The statement in Exhibit 206 that Holland felt quite sure that Avery "would not be interested in negotiating settlements unless everyone involved was included" is on its face an opinion of Avery's state of mind and, as events show, was wrong in point of fact.

[50]To the extent that this letter suggests an understanding that price control would be continued after the expiration of the Utzman closed-edge patent, all witnesses testified that there was no such understanding (Griswold, R. 701), (Holland, R. 966), (C. O. Brown, R. 1231), (Whittemore, R. 1400-1401), (George Brown, R. 1463, 1465), (Lenci, R. 2973-2974). The Government's suggestion on page 61 of its brief that Griswold was the only witness who denied having any understanding with Avery or anyone else that price control would be extended under some patent after the expiration of the Utzman closed-edge patent is therefore entirely unwarranted.

The evidence is clear that Holland, like Griswold, recognized that the litigation and dissension caused by the infringement of USG's rights were demoralizing the industry and rapidly causing the smaller companies to go into bankruptcy. Holland, like Griswold, knew that the closed-edge board was a superior product. He was also interested in the settlement of disputes and the taking of licenses, as in the case of Griswold, by reason of his connection with a second merger proposal. His activity in no way establishes concerted action to take licenses and stabilize prices, in fact, like the evidence concerning Griswold, it emphasizes the great lack of unanimity and the absence of concerted activity from which a combination or conspiracy could be inferred.

The Trial Court found that Holland did not act, nor was he told to act as agent or emissary of USG or Avery in obtaining license agreements and that any interest by Holland in the settlement of litigation in the industry was motivated by concern for his own company and the merger he was promoting (FF. 37; R. 4150). The finding is amply supported by the evidence and the Government assigned no error with respect to it (R. 4178-4186).

The May, 1929 Licenses

The litigation throughout the industry still prevailed in 1929. USG's infringement suit against American had been tried in 1928 resulting in a judgment in favor of USG. This prompted renewed efforts on the part of American to settle but all of these efforts involved requests for special concessions which USG refused to give.

As noted above, Niagara had manufactured an infringing board on the advice of American. Although

suit had not yet been instituted notice of infringement and a substantial claim for damages had been served on that company. USG's two infringement suits against National were approaching trial. The action to compel Certain-teed to assume the obligations of the Beaver license had not been settled. Ebsary was the only non-licensee company which had avoided infringement litigation by attempting to sell open-edge board with unsatisfactory results (R. 2790).

On May 16, 1929, National settled its litigation and signed a license. This involved a payment of damages for infringement of $178,000 (FF. 9, R. 4137). On the following day Baker of National telegraphed Avery that the license had been executed and mailed (Ex. 716, R. 6521, 3829). The telegram also stated that Reeb of Niagara was ready and that Baker was working with Ebsary with hope of everybody being set by Saturday to justify a meeting of all board makers. This telegram negatives concert of action for National signed its license and sent it to USG, notwithstanding that Niagara and Ebsary admittedly had not signed licenses. It is indeed apparent that Ebsary had not yet indicated an intention to sign. Certainly if there were any substance to the charge that there was a common plan that all companies would take licenses as a group, one prospective licensee would not have signed a license and delivered it unqualifiedly until the others had done likewise, particularly in this industry where there had been years of litigation, dissension and distrust.

These considerations apply as well to the recitals in the minutes of the Board of Directors of National on May 14, 1929 (Ex. 198, R. 5356, 886), stating that all manufacturers of gypsum products, except American, had agreed

to sign a license. The Trial Court properly refused to infer that these words evidenced a concerted agreement of all manufacturers to take a license (R. 4116). It can be equally inferred from the language that each manufacturer had individually indicated a willingness to sign a license. The Trial Court's conclusion is the only justifiable one particularly in the light of the testimony of all witnesses that each company took its license without regard to what any other company did (Griswold, R. 720; C. O. Brown, R. 1081-1084; Whittemore, R. 1398-1399, 1404-1406; George M. Brown, R. 1463; Nelson, R. 1491-1492; Lenci, R. 2790-2791, 2793, 2800, 2966-2967, 2968; FF. 37, R. 4150). The Government's argument on page 62 of its brief that the Trial Court failed to consider the National minutes in the light of all the evidence in the case is unwarranted. The Government is arguing in effect that the Court should regard the exhibit in the light only of evidence favorable to the Government without considering the mass of testimony favorable to defendants.

By May 18, 1929, Ebsary, Niagara and Certain-teed had indicated their respective intentions of taking a license and although the record does not contain the circumstances it appears that arrangements were made for these licenses to be signed at or about the same time in Chicago. Representatives of existing licensees and prospective licensees were invited to attend a meeting.

On May 18, 1929, American still was trying to get concessions and these were refused by USG. Accordingly, Avery telegraphed the other companies that there would be no American license and that the meeting would be futile unless the other companies desired to proceed without American. The other companies so elected and accord-

ingly on May 21, 1929, Niagara settled the claim against it for damages for the sum of approximately $28,000 and took a license. On the following day Certain-teed settled its litigation with USG, agreeing to pay damages of approximately $64,000 and to assume the obligations of Beaver under its original settlement agreement and license. Also on May 22, 1929, Ebsary took a license (FF. 9, R. 4136-4137).

In connection with the May licenses, the Government fails to call to this Court's attention the great mass of evidence in the case unequivocally establishing that there was no concert of action in connection with the taking of licenses. Whittemore and George M. Brown of Certain-teed, prior to their trip to Chicago in May of 1929, had decided that Certain-teed would take a license and the trip was for the purpose of working out a deal with USG on all matters, including payment of past royalties on board made at the Beaver plants, cancelation of the million dollar bond in the USG-Certain-teed lawsuit, and the settlement in general of the controversies between the two companies (R. 1398). Whittemore's testimony as to Certain-teed's reasons for taking a license is as follows (R. 1398-1399):

> "Q. Did the decision which you and your president and your management made prior to your going out there, to settle and take a license if you could, have anything to do with any other company in the business, or didn't it?
>
> "A. No, sir, it did not. We were in enough trouble ourselves without worrying about the other fellow.
>
> "Q. And is it a fact, sir, that your company would have taken a license if it could have gotten it without regard to what any other company did or did not do?

"A. Yes, sir.

"Q. What was the attitude of your company and yourself toward whether or not you desired to manufacture the Utzman closed-edge board?

"A. We wanted to make it.

"Q. Will you tell the Court the reasons why you wanted to make it?

"A. Well, there were a number of reasons. The board was a better board than the open-edge board; it was less subject to damage in transit because of the edge coverage by paper; it was easier to manufacture; and it was decidedly more salable.

"Q. Now when you say that it was 'decidedly more salable', do you include in that answer the fact that as of this time, at least, there was a strong customer demand in the trade for closed-edge board?

"A. Yes. If you will let me answer that question in my own may, I think I can get at what you want to develop.

"Q. I wish you would.

"A. The Certain-teed Products Corporation made an open-edge board. At the same time, the Beaver Products were making a closed-edge board; when we took over the Beaver products we immediately discontinued the manufacture of closed-edge board in the Beaver plant, and went to an open-edge board. We found that the customer demand precluded our selling an open-edge board at the same price as the closed-edge board, and prices declined, declined and declined.

"Q. Then would you say that the primary reason for your taking this license from USG was to get the right to manufacture the product covered by the closed-edge patent?

"A. That was one reason, and also to get rid of the possibility of future litigation. You referred to

> the Utzman patent. The Utzman patent was only one of some fifty to one hundred patents that we were licensed to use. Some of those patents were vital in the production of closed-edge board, and had we not had a blanket license to use all of the patents of USG, we would have been subject to possible litigation, and we wanted to avoid that—we had had plenty."

Notwithstanding the fact that representatives of other companies were in attendance at the meetings, Whittemore positively testified that Certain-teed made its agreement with USG independently (R. 1404). The Certain-teed negotiations were conducted with USG individually and there was no agreement or understanding of any kind among the manufacturers (R. 1406).

George M. Brown, who in large part formulated the policies of Certain-teed (R. 986) was violently opposed to the idea that USG should control the price of Certain-teed on patented board (R. 1222, 1401, 1405, 1439, 1443), and the fact that the Utzman closed-edge patent, under which price control was to be exercised, expired in but a short time, was one of the reasons why he agreed to take the license (R. 1401). Brown testified that Certain-teed, probably from wishful thinking, originally had decided to try to get along with the open-edge board. Due to the demands of the trade and of Certain-teed's sales and manufacturing departments, this viewpoint changed (R. 1455-1456). Certain-teed undoubtedly would have taken a license at an earlier date than May, 1929, if it could have obtained one without price control (R. 1463). Certain-teed's decision to take a license was not in any way dependent on what its competitors did with respect to signing a similar license (R. 1463). In

fact, Brown would have preferred that other companies did not have the right to make closed-edge board (R. 1463). Certain-teed opposed price-fixing at all times and finally took the license with a price-fixing provision in it because that was the only basis on which it could be obtained (R. 1464).

In further connection with Certain-teed's decision to take a license, Nelson testified that his company's decision to settle its lawsuit with USG and take a license had nothing to do with what any other company might do (R. 1491). The management of Certain-teed concluded that it was best for the company to take a license and the fact that price-fixing only extended to August, 1929, was a factor which influenced Certain-teed to take a license (R. 1490-1491).

C. O. Brown of Certain-teed testified that his reasons for favoring the May license were to get the right to make closed-edge board and to settle the suit between USG and Certain-teed. Price-fixing did not enter his mind (R. 1081-1084).

The other representative of one of the four companies which signed licenses in May, 1929, who appeared as a witness was Lenci of Ebsary. He testified that in 1928 when Ebsary began to manufacture gypsum board of the open-edge type, it was found that the open-edge board was expensive and wasteful to make (R. 2790, 2964). The Ebsary Company had considered the desirability of making a closed-edge board from the time it entered the board business, but concluded that it would make no attempt to manufacture a closed-edge board without a license because of the outcome of the patent suits instituted by USG against infringers (R. 2967). Lenci's testimony is abundantly clear that the dealer trade was demanding the closed-edge board and he

freely admitted that it was extremely difficult to sell open-edge board (R. 2790, 2965).

Prior to going to Chicago in May, 1929, Ebsary had received a draft of license and this had been turned over to its lawyer, Judge Rippey (R. 2790-2791, 2966). Before leaving for Chicago, the Ebsary Company had fully determined to take a license (R. 2790-2791, 2967). Ebsary's primary reason for taking the license was its desire and need to make closed-edge gypsum board (R. 2791, 2800, 2949, 2970). It also wanted to get the benefit of USG's research in the manufacture of board (R., 3082). Ebsary also knew of and desired to use the various patents other than the Utzman closed-edge patent covered by the license, including the machine patent and others which ran for many years after the expiration of the Utzman closed-edge patent in August, 1929 (R. 2791-2792). Ebsary was satisfied that it had to have the right to use many, if not all, of the patents in the license in order to make a satisfactory closed-edge board (R. 2792). Lenci read a summary of the various patents and knew that USG had many patents which Ebsary might infringe if it attempted to make a closed-edge board without a license, even after August, 1929 (R. 2971-2972, 3079-3080).

The conclusion of the Ebsary company to take a license was reached independently and without regard to what other companies might or might not do with respect to the same subject (R. 2800). Lenci never discussed the subject of a license with any other company nor, to his knowledge, had Frederick Ebsary (R. 2968). There was no general agreement or understanding at the May, 1929, meetings, and, so far as Lenci knew, the other prospective licensees had each independently determined to take a license prior to going to Chicago (R. 2968).

In the light of the foregoing testimony the Trial Court could hardly have found otherwise than that each company acted independently and not by concerted action. The Government's argument that this finding is erroneous is frivolous. That argument is based on a partial and misleading quotation from Exhibit 206 (R. 5371, 943) that Avery was not "interested in negotiating settlements until everyone involved was included" (Gov. brief, pp. 59, 66). This quotation is from a Holland letter to Haggerty in which Holland says "I am quite sure that Mr. Avery would not be interested in negotiating settlements unless everyone was included" (R. 5372). As we have noted, Holland was wrong in his conclusion for Avery was willing to and did license any company which agreed to the terms which had been formulated in the original settlement with Beaver. Next, the Government asserts that the meeting in May was "pre-arranged" (Gov. brief, p. 63). However that does not prove nor tend to prove that the licenses were signed by virtue of concerted action. Finally the Government asserts that Avery and everyone else recognized that by bringing the whole industry under licenses it would be possible for the first time to have effective price control (Gov. brief, pp. 66-67). This assertion fails to establish concerted action and, in any event, is neither supported by the record references cited by the Government nor by any other evidence.[51]

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[51]Although it originally pleaded that price control immediately followed each license as it was signed (Complaint, par. 66, R. 16), the Government now would have the Court believe that USG did not exercise its right to establish minimum prices on patented gypsum board under the earlier licenses but waited until the May, 1929, licenses were executed (Gov. brief, pp. 72-73, 103). This is contrary to the uncontradicted evidence (R. 789-790, 809-810, 814-815, 841-842).

The Government unsuccessfully attempts to establish that the primary if not the sole purpose of the companies in taking licenses was to get prices raised and stabilized (Gov. brief, p. 68). Its argument relies on (1) testimony of Lenci who agreed with a leading question of Government counsel that it was important for him to get a closed-edge board and also to make sure that price conditions were going to be corrected so that he could make a profit (R. 2971), and (2) testimony of Holland that he was interested in better conditions in the marketability of board so as to help his company and the other manufacturers out of their unfortunate financial situation brought about by the litigation and price war (Gov. brief, p. 68). This evidence by itself does not even justify the conclusion that any of the licensees took licenses with the primary idea of raising and stabilizing prices. Furthermore the mass of evidence that this was not their purpose must also be considered.

The Government makes a similar argument that the licensees signed the licenses with the idea of getting a uniform product because George M. Brown expressed the view that by all companies making a uniform product (i.e. closed-edge board) they would get away from "fierce warfares" and because Holland testified that it would be beneficial to have one kind of board (Gov. brief, p. 69). Such evidence hardly establishes that a dominant motive for the licenses was the desire of all licensees to have a uniform product.

The Government makes much of Lenci's testimony that after the May licenses were executed, USG issued new price bulletins to the licensees covering patented gypsum board (Gov. brief, pp. 70-73), and that in his opinion all of the licensees were human enough to hope that the prices would go up (R. 2973). The prices were of course higher than what Ebsary had been getting since Ebsary had not

been selling closed-edge board (R. 2973). The level of the prices was not raised, however, but remained at what USG had been getting for its product (R. 2973). This, we submit, is a strange culmination of a conspiracy to fix prices. No licensee had any idea what the prices would be beyond a hope that they would be better than those prevailing during the price war. There were no understandings or agreements of any kind about the establishment of prices and indeed the subject was not discussed. The great mass of evidence on this point alone establishes the absence of the combination charged.

The evidence is overwhelming that the licenses were not signed pursuant to any agreement to raise prices. Griswold testified that USG would never even discuss what prices it might establish on patented gypsum board under the licenses (R. 624-625, 698-699, 720).

Blagden stated that Beaver never had any understanding or agreement or discussion with Avery as to what minimum prices would be established under the licenses (R. 876).

Holland testified that there were no agreements or understandings between Universal and USG outside of the existing written license agreement (R. 965-966).

C. O. Brown testified that Certain-teed had nothing whatever to do with the establishment of minimum prices under its license and that the establishment of minimum prices for patented board was entirely in USG's discretion (R. 1235).

George M. Brown testified that there never was any understanding or agreement that gypsum board prices would be raised or stabilized and he denied that he even discussed with Avery the matter of the fixing of prices on patented gypsum board (R. 1464-1465).

Nelson similarly testified that he never heard of any agreement or understanding as to what USG would do about gypsum board prices after Certain-teed took a license (R. 1491).

Whittemore strenuously denied that the license agreement was made for the purpose of getting gypsum board prices fixed (R. 1404) and testified that USG never agreed to do anything with respect to establishing prices on patented gypsum board, nor, in fact, would USG even discuss the subject (R. 1402-1403).

As we have said, Lenci made it clear that no licensee knew what USG would or would not do with respect to prices subsequent to the execution of the licenses (R. 2792). He repeatedly stated that there was no understanding or agreement that prices would be raised and stabilized and, indeed, he had never heard the subject mentioned (R. 2808, 2876, 2972, 2992, 3032, 3087-3088).

The Government's argument that the May, 1929, licenses were signed in bad faith and with the motive of eliminating competition because the Utzman closed-edge patent had only eleven weeks to run is without merit (Gov. brief, pp. 172, 226). On the contrary, the shortness of that time interval to which price control was confined, proves beyond any doubt that price control was not a significant factor. Indeed it appears that George M. Brown of Certain-teed, who was violently opposed to price control (R. 1222, 1401), took the license because price control terminated a short time later (R. 1401). Moreover, the Government disregards the fact that the May licenses covered many other patents essential to the manufacture of gypsum board and did not expire until February, 1937. As Whittemore said (R. 1399):

> "The Utzman patent was only one of some fifty to one hundred patents that we were licensed to use.

Some of those patents were vital in the production of closed-edge board, and had we not had a blanket license to use all of the patents of USG, we would have been subject to possible litigation, and we wanted to avoid that—we had had plenty."

The November, 1929 Licenses[52]

We have already recited in detail the Trial Court's findings with respect to USG's offer of a foam board license to its licensees, the advantages of the new product, the claims of infringement of the Haggerty starch patent made by Universal, the acquisition of the Haggerty patent by USG, the offer of new licenses covering the outstanding patents of the prior licenses, the Haggerty patent and the applications for patents on the foam board invention, the signing of new licenses at various times during October, 1929, by all licensees except Texas, the settlement of the litigation with American and the granting of a license, and the signing of a license by Kelley (*supra*, pp. 13-17).

The foregoing facts were found by the Trial Court on ample evidence and the Government has not assigned any error with respect to them (R. 4178-4186). They are disregarded by the Government in its discussion of alleged facts which is largely based on governmental inferences drawn from certain memoranda of C. O. Brown of Certain-teed (Gov. brief, pp. 75-78, 80-85). The C. O. Brown memoranda were exhibits 227 and 231 (R. 5392, 1057-1058, 1060, 5400, 1075-1076) and, as we have noted, the Trial Court made an express finding that they did not

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[52]Used for convenience of reference. Actually, most of the licenses were executed on various dates during October, 1929, but became effective on November 5, 1929.

establish bad faith in the execution of the license agreements on the part of Certain-teed or any other person or company (FF. 39, R. 4150). That this finding is justified is clear.

The Government first suggests that the memoranda in question establish an agreement or understanding that another patent would be found to support price control after the expiration of the Utzman patent. All witnesses testified that there was not such agreement or understanding (R: Griswold, 701; Blagden, 875; Holland, 966; C. O. Brown, 1231; Whittemore, 1400-1401, 1408-1409, 1415; G. M. Brown, 1465; Lenci, 2810, 2973-2974). The Government also contends that an inference should be drawn from these memoranda that Certain-teed and the other licensees were not interested in the starch or bubble patents except as a vehicle for price control. But such an inference cannot be drawn in the face of overwhelming testimony directly to the contrary. The primary reason of Certain-teed in taking a license under the Haggerty starch and Roos bubble board patents was that the method of manufacture was cheaper, products could be made much lighter with resultant saving in transportation costs and a better product resulted (FF. 39; R. 4150, 1407). It had already investigated the starch situation and thought that it might be subject, on account of its own use of starch, to a claim of infringement of the Haggerty patent (R. 1407-1408, 1413). When the opportunity to obtain a license under the starch patents as well as the bubble board was presented Certain-teed was glad to take advantage of it. It was not motivated by a desire for price-fixing (R. 1405, 1413, 1428). There was no understanding or agreement that the starch and bubble patents or the proposed licenses would

be used as a vehicle to obtain price control (R. 1415). Certain-teed made a careful investigation of the merits of the bubble board invention before deciding to take the November license (R. 1407-1408). It had experimented with other materials in an effort to find something like bubble board and something to replace sawdust as an aggregate. It had attempted to create voids in the core with an effervescent material but that proved to be inefficient and uncontrollable (R. 1409-1411). After thorough consideration and experimentation by its research department, Certain-teed proceeded to take the bubble license because it wanted to use the bubble board invention (R. 1411-1412). After taking the license, Certain-teed used the inventions covered by the patents (R. 1421-1422).

Lenci testified that Ebsary had been advised to decide whether it wanted to avail itself of the bubble board invention (R. 2819-2820, 2876-2877). Ebsary investigated the matter of the new development and decided, as a completely independent matter, that it wanted to use the patents and take a license (R. 2811-2812, 3004, 3082-3083). In fact, Ebsary was so anxious to get into production under the new invention that it wanted the right to make bubble board prior to the date when the license became effective (R. 2832). The fact that Ebsary paid approximately $200,000 in royalties[53] for the starch-bubble license negatives any charge that the license was taken in bad faith (R. 3079). Lenci testified that at all times the Ebsary company used the patents of USG after taking the license making closed-edge board (R. 2479), board with foam (R. 2832), and with starch (R. 2832).

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[53]It is conceded that all licensees paid the full royalties called for by the license contracts. The amount paid by Ebsary was but a small fraction of the total royalties paid (see R. 162).

The representatives of other licensees who testified upon the trial uniformly established that the companies desired to use USG's patents and did use them after taking the licenses. Holland of Universal (R. 958); Neale of Atlantic (R. 1296, 1311); Black of American (R. 1368); Miller of Celotex (R. 1382-1384); Chism of Texas (R. 3481-3483); Tomkins of Newark (R. 2030, Ex. 362, R. 6029, 1876).

All of this testimony, direct, positive and unequivocal compelled the conclusion of the Trial Court that the licensees took the licenses in entire good faith because they wanted and needed USG's patents in order to remain in the business of manufacturing gypsum board.

The Government improperly criticizes the Trial Court's finding with respect to the case of *Universal Gypsum & Lime Co.* v. *Haggerty*, 21 Fed. (2d) 544 (W. D. N. Y. 1927). (Gov. brief, p. 81). As appears from the opinion in that case, Universal sued National and Haggerty claiming infringement of the Haggerty starch patent. The Court granted a motion for a preliminary injunction. The Court construed the patent broadly and held that it was infringed, that defendants were not in a position to challenge its validity, and required National to post a substantial bond or suffer the enforcement of the temporary injunction. Accordingly we submit that the Trial Court's finding on this subject is correct.

At this stage of its discussion of alleged facts, the Government is guilty of another false statement. On page 86 of its brief it is stated that "USG reserved the right to determine and fix the prices at which the licensees sold board (1) 'manufactured by licensee by use of any of the machines or appliances covered by any letters patent * * *' ". By this

the Government unquestionably means that it was agreed under the licenses that USG might fix prices under machine or process patents. The error in the Government's statement lies in the fact that the language which is omitted and merely indicated by asterisks qualifies the preceding language so as to limit the price control to product patents. The omitted language is "and which shall embody the inventions and improvements set forth and claimed in any of said patents which are presently issued" (R. 72, 4294, 4318, 4339, 4358, 4382, 4426, 4449, 4477). Thus price-fixing was limited to gypsum board embodying the inventions of patents already issued which means, of course, product patents, for only the inventions of a product patent will be embodied in the resultant article. It would appear that the erroneous quotation is a deliberate attempt to mislead the Court in view of the Government's strenuous contention that the *General Electric* doctrine is limited to product patents.

Metallized Board

In or about 1934 gypsum board became confronted with competition from fibre insulation boards which had been developed and put on the market. For the purpose of meeting this competition USG developed metallized board. Henning of USG was anxious for the entire industry to get behind the manufacture of metallized board and he realized that the only way to accomplish this was to have all manufacturers produce the product (R. 1303, Exs. 287, 288, 290, R. 5841-5842, 5844, 1261, 1263, 1266).

USG offered to each of its licensees a license to manufacture and sell metallized board under USG's patent rights. Each of the licensees, except Texas, signed such license

agreements at varying times in 1934 and 1935 (Exs. 17-22, 24, R. 4499-4559, 4573, 457).

The only contention raised by the Government in respect of the metallized board licenses is that set forth in Par. 114 of the complaint (R. 30) that at the time of the execution of said licenses, none of the licensees, except National, intended to manufacture metallized board but that all of said licensees, except National, intended to purchase metallized board from USG or National for resale to retail dealers and consumers at the prices and upon the terms and conditions of sale established by USG. In effect the charge was one of resale price-fixing. The Trial Court found specifically and in detail that the Government failed to establish that the metallized board licenses were signed by the various licensees without any expectation that they would manufacture such board, but with the intention that they would purchase it from USG or National and then resell it at the prices and under conditions fixed by USG. On the contrary, it was found that said licenses were made in good faith by each of the licensees with the intention to manufacture such board and that the prices fixed by USG under the metallized board licenses applied only to the patented metallized board manufactured and sold by the respective licensees and that there was no resale price-fixing in respect of such board (FF. 46-53, R. 4152-4154).

The Government assigned no error as to any of these findings except that portion of finding No. 53 that there was no resale price fixing in respect of such board. (R. 4182-4183, Gov. brief, p. 160.) The evidence not only supports but compels the findings of the Trial Court. Certainteed (R. 1238, 1240, 1402, 1428; Atlantic, R. 1268-1270, 1296-1297, 1303-1308; American, R. 1363-1364, 1368; Kelley and Newark, R. 1897-1898, 1961; Ebsary, R. 2761, 2939-2941, 3059-3060).

The Government's discussion of alleged facts on this topic contains the suggestion that the metallized board licenses were the result of concerted action. The Trial Court's findings and the record references shown above dispose of this contention.

On page 93 of the Government's brief it is stated that economic pressure was put upon certain manufacturers to become licensees. But it is apparent that the only "pressure' was the manufacturers' own desires to market the patented product (FF. 46-53, R. 4152-4154). Moreover, as the Trial Court properly found, there is no issue in this case that the licenses were obtained by coercion (FF. 29, R. 4148).

Perforated Lath

The Trial Court found that in many localities there are building code requirements in the case of plaster bases that a wall structure (the base plus the applied coat of plaster) must stand a one-hour fire test. To meet this requirement, USG developed the perforated gypsum lath covered by the Roos patent, which contained perforations of such size and spacing as to permit a wall structure composed of it to withstand the one hour test. When plaster is applied to this type of lath some of it passes through the perforations and forms a mechanical key which, because of the size and spacing of the holes, supports the coat of plaster with the result that it will resist fire for an hour. USG's perforated lath passed the one hour fire test of the United States Bureau of Standards and received the Bureau's one hour fire rating. This was the first gypsum lath ever to pass this test. The only perforated lath which ever passed the Bureau's one hour test was of the type covered by the Roos perforated lath

patent (FF. 42, R. 4151-4152). No error is assigned as to these findings, (Gov. brief, p. 160).

USG granted patent licenses to Certain-teed on June 8, 1936, American on July 10, 1936, Ebsary on February 2, 1937, and Kelley on June 23, 1937, for the manufacture, use and sale of perforated lath. Until May, 1938, USG established minimum prices on perforated lath made and sold by the licensees and charged a small royalty therefor. Then USG offered a revised perforated lath license to its licensees royalty free and such revised licenses were accepted by Certain-teed, Ebsary and Kelley. On January 3, 1939, USG granted Newark a royalty free perforated lath license after that company had merged with Kelley (Ex. 39, R. 5247, 462; FF. 17, R. 4142-4143). Of these facts the Government's assignment of errors challenges only that a royalty free license was offered (R. 4178-4186), but the evidence fully supports that finding.

The only charge with respect to perforated lath is that at the time of the execution, and throughout the period of the operation, of the perforated lath license agreements, USG, Certain-teed, and American were informed and believed that the perforated lath patent was void and that the license agreements were therefore not *bona fide* (Complaint, par. 119, R. 31).

The Trial Court found, on ample evidence, that the evidence established that Certain-teed and Newark were acting in good faith in respect of the perforated lath license (FF. 43, 44, R. 4152). It was also found that the Government failed to introduce any evidence questioning the good faith of American or Ebsary in respect of taking perforated lath licenses (FF. 45, R. 4152).

In discussing perforated lath, the Government gives the misleading and erroneous impression that the Roos patent

is invalid because lath with perforations was old (Gov. brief, p. 94). Whether or not lath with perforation was old is beside the point since the Roos invention covers a lath with perforations of such size and spacing as to permit the board to pass a one hour fire test. The invention lies in the size and spacing of the holes rather than the fact of perforation. The evidence establishes that in tests performed at the United States Bureau of Standards many laths with holes, gouges, indentations or other similar devices designed to give greater bond between the lath and applied coat of plaster failed to pass the one hour fire test. The only perforated lath which ever passed the test was the type covered by the Roos perforated lath patent (R. 3616, FF. 42, R. 4151-4152).

The Government's charges of bad faith (Brief, p. 98) are based on evidence that before taking a license Certain-teed received two letters from a patent attorney to the effect that in the patent attorney's view the Roos perforated lath patent was invalid (Exs. 601, 602, R. 6303-6307, 3454). This attorney, Spencer, admitted however that in advising Certain-teed on this subject he pointed out, as the letters show, that his opinion might be wrong, that the patent was valid on its face, and that litigation which might ensue could be expensive and the damages high (R. 3455-3456). He further recognized the possibility that a district court could well hold the patent valid and that such a decision could be affirmed by a Circuit Court of Appeals (R. 6308). Finally, he recommended that Certain-teed should not ignore the patent but should attempt to make a perforated lath which would avoid the claims of the patent (R. 6305-6306). Whittemore of Certain-teed testified that since USG was proposing to bring out a perforated lath, Certain-teed would

have to obtain a supply of the product in order to be competitive. If Certain-teed tried to make its own product, it would have the expense of testing and obtaining a one hour rating and it might get into litigation. Whittemore's experience with opinions of patent attorneys caused him not to rely too confidently on their judgment. Certain-teed therefore, determined to take the perforated lath license as a matter of sound business judgment (R. 1416-1418).

Tomkins of Newark testified that his company took a perforated lath license from USG because it felt that it had to be in a position to market the product. The sale of the product had been increasing rapidly and Newark wanted to be able to manufacture and sell it lawfully and without infringing the patent rights of USG (R. 2054-2055).

It is therefore apparent that the findings of the Trial Court that the perforated lath licenses were entered into in good faith are well supported by the evidence.

Operations under the Licenses

The Trial Court found that the Government failed to establish that the license agreements were executed with intent to accomplish restraints of trade beyond the proper limits of the patent monopoly (FF. 57, R. 4155). It also found that the actual operations of the defendants under the license agreements were not carried beyond the proper limits of the patent monopoly and licensing thereunder (FF. 86, R. 4160). In addition to these general findings, the Trial Court specifically found that the evidence failed to sustain the Government's charges that defendants (1) illegally raised and fixed at arbitrary and non-competitive levels the price of gypsum; (2) accomplished improper standard-

ization of gypsum board and its method of production; (3) raised, maintained and stabilized the level of prices of unpatented material—plaster and miscellaneous gypsum products; (4) effectuated improper restriction upon distribution of gypsum board, plaster and miscellaneous gypsum products; or (5) fixed the prices at which manufacturing distributors resold gypsum board (FF. 86, R. 4160-4161). It will appear in the following discussion that these findings are correct.

Establishment of Prices on Patented Board

The Trial Court found that the defendants did not by any of their operations under the license agreements, nor by any agreement or understanding, illegally raise or fix at arbitrary or non-competitive levels the price of gypsum board. Of course, as is recognized by the Trial Court, the right to establish minimum prices under the General Electric doctrine involves in a sense the establishment of a "non-competitive" price for the patented article. However this is what the law allows (R. 4051-4055, 4073-4074).

Since the Government urged in the Court below, as here, that USG established unreasonably high prices, the Trial Court found that the evidence did not support the charge. After the signing of the May, 1929, licenses, the USG bulletins established patented board prices at the levels at which USG had been selling board just prior to the execution of these licenses, and subsequently these bulletin prices were advanced over what they had been during the price war. But the prices so established did not exceed those which prevailed prior to the first license (the Beaver license) and the price war. Since 1935 the prices have been lowered so that for the past several years wallboard has sold for

$23 per thousand square feet and lath for $13, as compared with $30 and $15-$16, respectively, before the first license (FF. 87, 88, R. 4161).

The Government's contentions about gypsum board prices appearing on pages 248-250 of its brief are deceptive and unsound. It is stated that during the period from 1927 to 1929 the price of closed-edge board dropped from $30 to $20 allegedly because there was competition from open-edge board and that closed-edge board could only command a premium of $2 over open-edge board. The Government then makes the comparison that after 1929 board prices went up to a high of $28.50 in 1934. The Government fails to recognize that the conditions in 1927-1929 were not normal, that because of the dissension and bitterness engendered by years of patent infringement litigation a demoralizing price war pervaded the industry with the result that many companies were selling gypsum products below cost (FF. 60, R. 4155, 973). These conditions caused the drop in the price of closed-edge board from $30 to $20, not the fact that open-edge board was being marketed. Thus the very exhibits relied upon by the Government show that the prices of all gypsum products were very low during this period (Exs. 619, 620, 6403-6414). For example, plaster was selling for as low as $2 per ton (R. 6410). Furthermore, the Government itself pleaded in its complaint that "the litigation of the last nine years had already created bitterness in the industry which reflected itself in increasing price competition in an industry which until 1925 had been unusually stable and profitable" (Par. 56, R. 13). Prior to 1925, when the Government does not even charge that a conspiracy existed, open-edge board was in competition with closed-edge board yet the latter admittedly had a stable price of $30. Yet after the alleged conspiracy is said to have

gone into effect the highest price was $28.50 in 1934 which prevailed for but a short period. Since 1935 the price of wallboard has been only $23 (FF. 88, R. 4161). These considerations show how unsound the argument is that open-edge board was the fundamental factor in determining the level of prices.

The remark that the closed-edge patent was of little value because that type board could command but a $2 premium is false (Gov. brief, p. 248). Actually the premium was higher (R. 2964, 6411). Moreover, the premium in price does not tell the whole story since closed-edge board is cheaper to make (R. 874, 1236, 1243, 2790, 2944-2965, 3479). In any event, a $2 premium on a $20 product is of tremendous value to the practical business man. Obviously a discovery which permits a manufacturer to get $2 more for his product than anyone else can get for theirs is of great value.

Open-edge Board

The Government charged that USG and its licensees were guilty of unlawful practices of standardization in concertedly eliminating open-edge board, seconds and No. 2 board and by restrictions on the packaging of board.

As to open-edge board, the Trial Court found that there was no understanding or agreement by defendants to refrain from or discontinue the manufacture and sale of open-edge board and that the license agreements were not executed with an intent to eliminate that type of board (FF. 62-66, 90, R. 4155-4156, 4161).

The evidence conclusively establishes the correctness of these findings. Closed-edge board not only was a superior

product but was cheaper to make and the trade demanded it (R. 687, 874-875, 1236, 1243, 1385, 1398-1399, 1404, 1446-1447, 1455-1456, 2790, 2964-2965, 3479-3481). The Government itself alleged in the complaint that closed-edge board represented a substantial improvement of that then on the market and that the consumer demand for it stimulated other manufacturers to produce and market board with a protected edge (Par. 49, R. 11). All companies in the industry recognized that they needed the superior product to stay in business. Many of them went so far as to market boards with closed edges or modified closed edges which infringed USG's patents. It is not disputed that an aggregate of over $700,000 was paid to USG by these infringing companies in part payment of damages for infringement. Naturally when any company became a licensee it no longer desired to manufacture the open-edge type of board. This is an additional indication of the importance of the patents rather than evidence of an unlawful combination. The witnesses uniformly testified that there was no agreement or understanding, either within or without the license agreements, that the manufacture of open-edge board would be discontinued (Whittemore, R. 1403-1404; Nelson, R. 1494; Lenci, R. 2790, 2791-2792, 2800, 3080-3082).

The Government complains of the Trial Court's finding that only Texas, Certain-teed and Ebsary had made open-edge board before signing their licenses (FF. 62, R. 4155) although no error was assigned in respect of the finding (Gov. brief, p. 160). It is contended that this finding is contrary to the admitted facts of the case since there is an allegation in the complaint that after July 11, 1928, American and Niagara marketed open-edge board and this is

admitted in the answers of some of the defendants (Gov. brief, pp. 65, 105). We submit that the Trial Court's finding is justified. For years American made closed-edge board with the so-called Clark edge and Niagara followed suit as an informal licensee of American (R. 480, 546-547). On July 11, 1928, judgment was entered holding American an infringer and it was to be assumed that they went to an open-edge. Upon the trial, however, it was established by the Government's witness that after July, 1928, American made a board with the edge enclosed with tape (R. 669).

The Government criticizes the Trial Court's finding that "when the closed-edge board of the Utzman patent came into the market the open-edge board was largely displaced by the demand of the trade for the better product" (Gov. brief, p. 105). As we have noted, the Government's own complaint alleges that closed-edge board was "a substantial improvement" and that there was consumer demand for that type of product (see Complaint, pars. 49, 68, R. 11, 16). Moreover, a mass of testimony establishes that the trade demanded the closed-edge board and that open-edge board could not be sold (R. 478, 480, 546, 570-571, 573, 575-576, 670, 687, 690, 695, 712, 874-875, 1236, 1243, 1385, 1398-1399, 1446-1447, 1455-1456, 2790, 2964-2965, 3479-3481).

The Government's discussion of alleged facts on the matter of open-edge board is based for the most part on general statements in letters or testimony that the industry would be better off if there was uniformity of product. That is a statement which could doubtless be applied to any industry but it would hardly prove that the speaker was in a conspiracy to bring about standardization.

The Government again relies on Exhibits 324 and 212, the answer of Certain-teed and the memorandum of George

M. Brown charging USG with aspiring to unlawful domination (Gov. brief, p. 111). We have discussed these exhibits above and the Court's specific finding that they do not establish any bad faith in the execution of the license agreement (*supra*, pp. 112-114).

Finally, the Government relies on the fifth "whereas" clause of the May licenses to the effect that the licensor has been unwilling to grant a license except on condition that the licensee will manufacture only a closed-edge board to establish that the parties conspired to eliminate open-edge board. The Government glosses over the sixth "whereas" clause which waives the requirement of the fifth (R. 50). The Trial Court specifically held that the sixth "whereas" clause was not a purported waiver of the condition referred to in the fifth and that there was no understanding or agreement that open-edge board was to be discontinued (FF. 65, R. 4156). This finding is fully supported by the evidence (R. 380-382, 880, 1403-1404, 1495, 2790-2792, 2800, 2807).

Seconds and No. 2 Board

The Trial Court found that a "second" is a defective board produced unintentionally in the manufacture of standard board while a No. 2 board is a board made of lower grade material than that used in the manufacturing of the standard board. Both seconds and No. 2 board are by definition board made under the patents. There was no agreement or understanding that seconds or No. 2 board would not be manufactured. On the contrary, the parties to the license agreements were free at all times to make and sell such board (FF. 67, R. 4156-4157).

The Government attacks the finding of the Trial Court that the evidence failed to establish that there was an elimination of seconds and No. 2 board. The Court noted that it is admitted that all companies make some seconds in the course of manufacture. The Government contends that its charge did not mean elimination in that sense but meant that seconds have been eliminated from sale on the market (Gov. brief, pp. 107-108). It thus appears that the Government's real complaint is that USG established one price for all patented board or, conversely, failed to establish a lower price for seconds and No. 2 board. The Trial Court rightly held that even if seconds and No. 2 board went wholly off the market as the result of the bulletins, there would be no illegality (R. 4077-4078). Nevertheless there was no evidence of any elimination of seconds and No. 2 board and the witnesses established that there was no agreement or understanding on the subject (R. 1236, 1297, 1365, 3047-3048).

Bundling

Among the patents owned by USG were those covering a method of binding gypsum board together with gummed tape running lengthwise along the edges of the board. There was no satisfactory method of bundling gypsum board or lath except by means of the patented bundle. Attempts to tie the board with wire resulted in the wire slipping and cutting the board thereby causing much breakage. Delivery of board by the licensees in broken condition would tend to devalue the product and thus lessen the pecuniary reward of the patentee's monopoly (FF. 70, R. 4157). No error was assigned as to this finding (Gov. brief, p. 160).

The four licenses which were executed in May, 1929, granted rights under a bundling patent and required the licensees to use this bundling method and no other.[54] However, the restrictive provision was abandoned when the November, 1929, licenses were executed, and no such provision has been incorporated in those or any later licenses. The Trial Court inferred that the restrictive provision of the May, 1929, licenses was to exploit the bundling patent and to accomplish packaging of board by the licensees in a manner which would preserve quality, *i.e.,* without breakage (FF. 70, R. 4157). The Trial Court found that any question as to the propriety of the restrictive provision has become moot (R. 4078-4079, FF. 93, R. 4162). The Trial Court further found that the royalty provision relating to the bundling patents did not establish an attempt to standardize by eliminating other methods of packaging, and that the provisions were not so intended and did not have such effect, and that no other method (except an uneconomic one) was available (FF. 71, R. 4157).

The Government does not challenge the holding of the Trial Court in respect of the restrictive provision of the May, 1929 licenses (see Par. 48, R. 4184). Its only contention is that illegal standardization came about because, under the November licenses, royalties were charged on all bundled board whether or not under the patents (Gov. brief, p. 115). The royalty was charged for the privilege of using the patents and was measured by the quantity bundled by any method. The Trial Court properly held that this provision did not establish an attempt to eliminate other methods of bundling (FF. 71, R. 4157-4158). It found on ample evi-

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[54] Certain-teed's license under this patent was granted in a separate agreement executed July 3, 1929 (Ex. 230, R. 5396, 1075).

dence that there was no satisfactory way of bundling gypsum board or lath except by means of the patented bundle (FF. 70, R. 4157, 1068, 1071-1073, 1225, 1456). Attempts tie the board with wire resulted in the wire slipping and cutting the board thereby causing much breakage (FF. 70, R. 4157, 3489-3491). There was no evidence, and the Government points to none, that any existing method of packaging was driven off the market. Thus there was no reason for the Trial Court to adopt the Government view that the royalty clause brought about unlawful standardization. Its present argument to that effect (Gov. brief, p. 115) is nothing more than a request that this Court reject the findings and inferences of the Trial Court and adopt the inferences requested by the Government although the latter are unsupported by any evidence. The argument is manifestly without merit (see discussion on inferences, R. 4013-4015).

Bulletin Provisions

In the exercise of its right to establish minimum prices under the licenses, USG issued licensee bulletins establishing the minimum prices at which the respective licensees should sell the patented gypsum board manufactured by them under the licenses. The price bulletins in the instant case contained two classes of provisions, one class providing how price should be arrived at, the other intended to protect the price fixed, *i.e.*, to prevent indirect price cutting in the sale of the patented product. The price provisions were drafted in view of the fact that the ultimate price at which the patented product was to be sold cannot be arrived at merely by naming an amount, but other factors which have economic relationship to price—such as terms of payment, cost of delivery

to various areas, including freight charges, quantity sold, type of product sold, and the like must also be stipulated (FF. 26, R. 4147).

The Trial Court found that the minimum price bulletins were limited in their application to patented board manufactured and sold by each licensee under its license (FF. 18, R. 4143). The Government assigned no error with respect to this finding (See par. 26, R. 4181).

We believe that it would serve no useful purpose to review at length the various provisions of the bulletins. These were considered in detail by the Trial Court (R. 3945-3947, fn. 13) and are compared with the provisions in the license in the *General Electric* case (R. 3987-3990, fn. 25). The Trial Court found that there was no material distinction between the terms and conditions of the license agreements and price bulletins in the instant case, as compared with the terms and conditions, including price provisions, in the *General Electric* case (FF. 27, R. 4147).

The Government's discussion of alleged facts dwells on a number of detailed terms and conditions of sale mentioned in the price bulletins with the apparent objective of conveying the erroneous impression that there was tremendous "regimentation" in the gypsum industry (Gov. brief, pp. 114-122, 172, 243, 248-252, 255). To begin with it is to be noted that the price bulletins admittedly applied only to patented gypsum board and not to the many other gypsum products. All that the bulletins did was to establish minimum prices for patented gypsum board sold upon certain terms (R. 2503, 2509, 2510-2514, 2518-2523, 2559, 2562-2563, 2605-2613, 2812, 2837, 2857-2864, 2903-2905, 2907-2908, 2910, 2913, 2914-2916, 2922-2924, 2929-2932, 2941-2942). It would have been meaningless for the bulletins merely to

have named an amount of money as the minimum price (Exs. 33-39; R. 4619-5247, 462). Numerous other factors relating thereto such as method of delivery, quantity, terms of payment, etc. have to be known since all of these matters affect the value of and the price of the patented article (R. 2834-2843). The terms and conditions of sale of the bulletins were not arbitrary delimitations but were the normal and economic terms which grow up in any business (R. 2815-2816). Many of them had been in existence for years (R. 970-971, 2481, 2815, 2816, 2869-2876, 2908-2909, 3072-3073, 3074-3078, 3083-3087). The same applies to the method of pricing (R. 2908-2909).

The Government questions the Trial Court's finding that the price of board was calculated on the basis of a mill base price plus freight from the nearest mill (freight-wise) to the point of destination (Gov. brief, pp. 116, 117). This is precisely what its own witness testified to (R. 2909) and is the fact as shown by the bulletins. The Government's effort to establish that the bulletins provide for a basing point system rather than a freight equalization system is erroneous and irrelevant. There has never been any charge in this case that the method of pricing is unlawful and the observation on page 251 of the Government's brief that basing points would probably constitute a price discrimination in violation of Section 2(a) of the Clayton Act is manifestly unjustified.

Jobbers

A jobber is a functionary in the wholesaling process who buys from the manufacturer, or from another wholesaler who has bought from the manufacturer, and sells to

the dealer. The jobber's service is that of relieving the manufacturer, or, in some instances, the wholesaler, from the necessity of direct contact with the dealer—this being accomplished by the jobber's sales force. In the gypsum industry, jobbers occupy a somewhat ambiguous position since it is difficult to know whether or not a given person is a jobber (FF. 76, R. 4158-4159).

After the May licenses were signed, the license bulletins established a 10% discount off the price of patented gypsum board on sales to jobbers (Ex. 408, R. 6097, 2505). On August 8, 1930, USG established the minimum price at which a licensee might sell its patented board to jobbers at the same level as the minimum price to the regular dealer trade. Thereafter a jobber who purchased patented board from either USG or one of its licensees was obliged to pay the same price as a dealer. The discontinuance of the discount did not have the effect of forbidding sales of board to jobbers if they were willing to buy at the dealer price. Many jobbers continued to buy board and were able to perform a proper jobbers' function (FF. 100, R. 4164).

In addition to the foregoing, the Trial Court found that the license agreements were not executed with an intent to effectuate improper restrictions upon the distribution of gypsum board, plaster or miscellaneous gypsum products, specifically, to "eliminate" jobbers through the discontinuance of a sales discount (FF. 75, R. 4158). The Court also found that the discontinuance of the jobber discount on patented gypsum board was not accomplished pursuant to any understanding or agreement among defendants or any of them (FF. 101, R. 4164), and that the Government failed to introduce any evidence concerning any dealings

by USG or its licensees with jobbers in respect of plaster and miscellaneous gypsum products (FF. 80, R. 4159).

All of the foregoing findings are fully justified by the evidence. As to patented gypsum board, numerous witnesses testified that there was no agreement or understanding whereby jobbers would be eliminated from the distribution system of gypsum board; nor was there any understanding or agreement that the jobber discount would be discontinued or the price to jobbers made the same as the dealer price (Lenci, R. 2809-2810, 2876, 2995-2996, 3038-3040; 3077-3078; George M. Brown, R. 1465; Black, R. 1358-1360). There was nothing in the license agreement or bulletins which prohibited sales of gypsum board to jobbers (R. 2809, 2876). As to the charge that jobbers were eliminated in respect of plaster and miscellaneous gypsum products, the Government's brief does not challenge the Trial Court's finding (See Gov. brief, p. 122).

The Government asserts that the only possible pretext for eliminating "jobbers" is that appellees could not lawfully control the resale price (Gov. brief, p. 252). No attempt is made to support this statement and there is no evidence in the entire record to justify it. If any reason were necessary to justify USG's establishment of a uniform price for patented gypsum board for both dealers and jobbers it lies in the fact that a jobber serves no economic purpose to a manufacturer who maintains an adequate sales department.

The Government's underlying contention in respect of jobbers is not that jobbers were kept from buying and selling patented gypsum board but that USG in exercising its right of price control failed to maintain a lower price for jobbers than for other classes of trade. The Govern-

ment's real quarrel is with the doctrine of the *General Electric* case rather than the findings of the Trial Court.

Manufacturing Distributors

The term "manufacturing distributor" is applicable to companies which manufacture and sell gypsum plaster but which do not, for lack of investment in the large amount of plant equipment necessary in the making of gypsum board, manufacture board. In order to be able to market a full line of products, the manufacturing distributors purchase gypsum board from USG or one or more of its licensees. The purchases are made at a discount, and the sales of the board are made to the same dealer trade as that to which USG and its licensees sell their board, and are therefore made in competition with USG and its licensees. The license agreements provided that a licensee might not sell patented gypsum board to manufacturing distributors without the written consent of USG (FF. 82, R. 4159, 4160).

USG freely, and without conditions attached, granted consents to the licensees to sell manufacturing distributors. No consent once granted was ever withdrawn. The Trial Court found that the consents were never used in any way to control or attempt to control the resale price of any of the manufacturing distributors (FF. 106, R. 4165).

The manufacturing distributors referred to in the evidence are Structural Gypsum Corporation, of Linden, New Jersey; the Connecticut Adamant Plaster Company, of New Haven, Connecticut; and the Oakfield Gypsum Products Corporation, of Oakfield, New York.

The Trial Court found that there was no understanding or agreement of any kind that the resale prices of

manufacturing distributors should be regulated or controlled[55] (FF. 83-84, 104-117, R. 4160, 4165 4167).

The foregoing findings are amply justified by the evidence. Numerous witnesses testified directly and unequivocally that there was no agreement or understanding of any kind that the resale prices of manufacturing distributors on gypsum board would be regulated or controlled (Neale, R. 1298-1299; Whittemore, R. 1402; Tomkins, R. 1987; Lenci, R. 2665, 2888-2891, 2943-2944, 2947-2948, 3033, 3071; Stromquist, R. 3602). The manufacturing distributors themselves likewise testified that they had no agreements or understandings as to the resale prices they should charge on gypsum board (Hansen, R. 3146-3147; 3215-3216; McCormack, R. 3382; Kellogg, R. 3410).

As to the consent to sell clauses of the licenses, the testimony is uniformly to the effect that USG granted to licensees consents to sell manufacturing distributors at a discount freely and without any conditions attached (Tomkins, R. 2035; Lenci, R. 2944; see also Hansen, R. 3217; McCormack, R. 3386; Kellogg, R. 3411).

The Government stresses here, as it did in the Trial Court, a number of exhibits having to do with charges of license violations of the minimum prices of patented board

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[55]This is the second time that a Court has held that the Government's charges in respect of jobbers and manufacturing distributors are without substance. In a prior criminal proceeding in which it was charged that USG, National, Certain-teed, Ebsary, and Newark, and numerous officers and employees of these companies and of American conspired illegally to control the prices of manufacturing distributors and to eliminate jobbers from the gypsum board industry, the District Court of the United States for the District of Columbia directed a verdict in favor of defendants at the conclusion of the Government's case (R. 4144).

in which reference is made to manufacturing distributors (Gov. brief, pp. 128-132). It has been the Government's contention that these are complaints against and regulations of manufacturing distributors. However, the Trial Court made specific and detailed findings that such evidence involved instances of violations of minimum prices by licensees, and not manufacturing distributors (FF. 112-117, R. 4166-4167). These findings are amply justified. For the most part, they are established by the very exhibits which the Government relies on. (*Structural,* Ex. 438, R. 6139, 2573; Lenci, R. 2846-2849, 2569; Ex. 443, R. 6144, 2573; Ex. 444, R. 6147, 2573; Ex. 436, R. 6136, 2573; Ex. 437, R. 6138, 2573; Ex. 438, R. 6139, 2573; Ex. 447, R. 6149, 2591; Ex. 439, R. 6141, 2573; Ex. 440, R. 6142, 2573; Ex. 449, R. 6151, 2591; Ex. 441, R. 6143, 2573; Ex. 442, R. 6145, 2573; Ex. 445, R. 6148, 2573; Ex. 446, R. 6148, 2573; Ex. 450, R. 6152, 2591; Lenci, R. 2585-2586, 3033-3034, 2568-2573; *Oakfield,* Ex. 512, R. 6206, 2744; Ex. 513A, R. 6208, 2744; Ex. 514, R. 6209, 2744; Lenci, R. 2718-2720, 2743-2744, 2926-2927; Hansen, R. 3093-3104; *Connecticut Adamant,* Ex. 463, R. 6165, 2591; Ex. 467, R. 6169, 2591; Lenci, R. 2892-2893; Ex. 464, R. 6166, 2591; Ex. 468, R. 6169, 2591; Lenci, R. 2891-2892, 2597-2598.)

Board Survey and Licensee Meetings

In 1932 USG set up as a department a wholly owned corporation called the Board Survey Company. Its function was to receive complaints of license violations, to investigate the facts, call them to the attention of the licensee involved, and upon occasion to the attention of the licensor USG. Board Survey Company was organized by USG for

the purpose of bringing about compliance with the licenses. The licensees had no part in its formation, management or operation. From time to time a representative of USG, as licensor, met with representatives of the licensee companies for the purpose of explaining to them the provisions of the minimum price bulletins and for the purpose of securing adherence to such minimum prices by the licensees (FF. 20, R. 4143-4144).

The Government assigned no error in respect of the foregoing findings (See R. 4178-4186), but devotes 15 pages of its brief discussing numerous minor details in connection with price bulletins which were raised from time to time by licensor and licensees (Gov. brief, pp. 135-149).

Although the Government concedes that there was a relation between the price of board and the bulletin provisions (Gov. brief, p. 255), it nevertheless complains that licensee meetings were the occasions for concerted agreement on all those practices. The evidence is clear that there was no concerted action at licensee meetings (R. 2943). The Trial Court's findings that such meetings (the last of which was held ten years ago) were held simply to clarify the license bulletins is fully supported by evidence (R. 2814-2815; 3005-3006). Among the things complained of as having been discussed at the licensee meetings are questions with respect to commission salesmen, the use of dunnage, allowance of trade discounts and payments, warehousing and consignment sales, jobber sales, truck deliveries to the job, and advertising allowances, all of which were covered from time to time by provisions in the various license bulletins.

With respect to commission salesmen, there was a practice in the industry to cut the price of the patented board

by paying commissions to a salesman who would in turn split his commission with the customer, the effect of which was to reduce the price of the board (R. 2853-2854). That was all that was discussed at the meeting of October 17, 1932, and the license bulletin which followed was intended to prevent that practice and was so understood by the licensees (R. 2857). This, together with other price concessions, was covered by a later bulletin dated February 6, 1939, to the effect that any sale of patent products, though ostensibly made at the minimum price, would be considered a violation if licensee reduces the price below the minimum by granting rebates, including the splitting of salesmen's commissions with customers (R. 100). The splitting of commissions was a deliberate rebate from the minimum price, and whenever the subject was discussed at a meeting or dealt with in a bulletin it was clearly understood that the licensor's position was that a reduction of the minimum price by splitting commissions was a license violation.

With respect to dunnage, which was board used to properly pack a shipment in cars, the practice arose among the licensees to put in a large amount of board ostensibly as dunnage but for the sole purpose of giving to the customer additional board by way of a rebate on the minimum price (R. 2659-2660). This practice was the subject matter of license bulletins issued by the licensor, and when discussed at a meeting simply represented a complaint by the licensor that overshipment of patented products in this way constituted a violation of the minimum p[illegible] bulletin. Finally, the subject was covered by the bulletin of February 23, 1937, above referred to, wherein it was provided that any reduction of the minimum price, by including board in shipments

under the guise of dunnage for the purpose of effecting a reduction in the minimum price, would be regarded by the licensor as a license violation (R. 100).

With respect to trade discounts, warehousing and consignment sales, jobber sales, truck deliveries to the job and advertising allowances, like the foregoing, practices grew up of using these items to cut the minimum price of board. Bulletins were issued by the licensor to curtail such practices which finally were included in the bulletin of February 6, 1939, above referred to, to the effect that a reduction in the minimum price by means of granting rebates, unwarranted refunds, credits or discounts, by hiring customers' trucks, by granting allowances for advertising or other purposes or by making any other payment or allowance in the form of money or otherwise which has for its purpose and effect reducing the price below the minimum price, was a license violation.

This is all there was to the discussions at the licensee meetings complained of by the Government. The bulletins from time to time were a development of practices which arose and were discovered by the licensor and long before this suit was commenced had been crystallized and combined into the single bulletin of February 6, 1939, attached to the bill of complaint (R. 100).

Plaster and Miscellaneous Gypsum Products

The Trial Court found that there was at no time any agreement or understanding among any of the parties to the respective license agreements that prices would be raised or fixed upon plaster or any other unpatented gypsum product. The license agreements were not executed with an intent to

raise, maintain and stabilize the prices of unpatented materials. The parties to the respective license agreements knew that the licensor's right to fix minimum prices was limited to the prices on patented gypsum board manufactured and sold by the respective licensees (FF. 73, R. 4158).

The Trial Court further found that the defendants did not by any of their operations under the license agreements, nor did they by any agreement or understanding, raise, maintain or stabilize the level of prices of plaster or miscellaneous gypsum products or any other unpatented product as charged by the Government. The increase in the price of plaster and miscellaneous gypsum products over the prices during the 1927-1929 price war was not the result of any device adopted or action taken by the defendants to bring about such increase (FF. 94, R. 4164).

The Trial Court also made a specific finding that a price protective provision of the bulletins that "Any sale of patented products, though ostensibly made at or above minimum price established by licensor, will nevertheless be considered a violation of the provisions of the license if licensee directly or indirectly reduces the actual price charged by licensee below such minimum price * * * by reducing the price of other products * * *" is but part of a larger provision concerning rebates and allowances made for the purpose and with the effect of reducing the licensee's price on patented board below the minimum price therefor. It was not a device to raise, maintain or stabilize the price of plaster or miscellaneous gypsum products, and it was not applied by the defendants to that end. Nor did it have that effect. On the contrary the provision in question was a proper price protective measure reasonably designed to secure to USG the pecuniary reward of its patent monopoly.

In operation, it was not used to raise, maintain or stabilize the price of unpatented materials (FF. 95, R. 4162-4163).

The Trial Court made additional findings that a number of exhibits, many of which are again relied upon by the Government in its present discussion of alleged facts, did not establish that the defendants or any of them raised, maintained or stabilized, the prices of unpatented material (FF. 96, 97, 98, R. 4163-4164).

All of these findings are fully supported by the evidence (Griswold, R. 621-623, 699-700; Blagden, R. 876; Holland, R. 996; C. O. Brown, R. 1231-1234, 1238; George M. Brown, R. 1464-1465; Nelson, R. 1492; Whittemore, R. 1401-1402; Lenci, R. 2809, 2993-2995, 3075-3077; Black, R. 1365; Tomkins, R. 2010-2011, 2023, 2033, 2061; Chism, R. 3483).

In the face of this mass of unequivocal testimony by the Government's own witnesses, the Government's contention (Gov. brief, p. 152) that the Court should draw a contrary inference from the testimony regarding Cardiff Gypsum Company, is wholly without merit, nor is the testimony of Sensibar, the only witness on the subject, open to any such inference.

Point V

THE COURT BELOW CORRECTLY HELD THAT THE GOVERNMENT MAY NOT ATTACK THE VALIDITY OF PATENTS AS ALLEGED IN PARAGRAPH 46(a) OF THE AMENDED COMPLAINT.

The license agreements in the instant case involved some 60 patents—product, process and machine—covering the manufacture of gypsum board. The complaint, as origi-

nally filed in August, 1940, charged that the alleged conspiracy had been carried out in connection with such license agreements. It was not charged that any of the patents were invalid. By amendment some three years later, the Government attacked five of the patents (the three foam patents, the perforated lath patent and one of the metallized board patents) alleging that these were invalid and void as follows (R. 349):

"46a. Many of the patents mentioned and described in said license agreements by which the said combination has been, and is being carried out in part, are process or machine patents. The article and product claims of Roos patents No. 2,017,022, No. 2,079,338, No. 2,080,009, No. 1,914,345, and No. 1,938,354 mentioned and described in said license agreements; and said patents, are each invalid and void for each of the following reasons: (a) there is no real invention or novelty in the claims of said patents; (b) the claims of said patents disclose no patentable invention in view of the prior art at the time the respective applications were filed; (c) the alleged inventions described in the claims of said patents were shown and described in printed publications in the United States more than two years prior to the filing of the respective applications; (d) the alleged inventions described in the claims of said patents are inoperative and devoid of novelty or utility; (e) the alleged inventions described in the claims of said patents were abandoned by the inventor and he was guilty of laches before the respective applications were filed; (f) the alleged inventions described in the claims of said patents were not reduced to practice until after other inventors had invented and reduced the same to practice and applied for patents thereon; (g) the said alleged inventions are described in ambiguous and not in properly clear, concise and

exact terms and; (h) the defendants have been informed of the invalidity of the claims of the said patents and have unreasonably failed to file in the United States Patent Office any disclaimer of such claims.[56] The said patents mentioned and described in the said license agreements, even assuming they are valid, are not basic article or product patents and do not singly or all together cover completely the business of mining and selling gypsum, or cover completely gypsum board, which is one of the forms in which unpatented gypsum is sold by the defendants, but at most constitute minor additions to the established and unpatented art of making gypsum board and afford no legal justification for the said combination."

By this amendment the Government sought a judicial determination that the Patent Office erred in issuing the patents and that they were for that reason invalid.

On motion of defendants before the commencement of trial, the Court dismissed paragraph 46(a) except the first and last sentences thereof (R. 369-395), reported at 53 F. Supp. 889.

The precise question considered by the Court below was whether the Government in an anti-trust case could allege in its complaint that patents issued by it were invalid for reasons other than fraud and thereby predicate a charge of unlawful conduct upon a basis that the Patent Office erred in issuing the patents.[56a] Stated differently, the Court below

[56]The Government waived and withdrew the charge contained in Subdivision (h) (R. 434, 3931).

[56a]The three Roos foam patents were issued after proceedings in the Supreme Court of the District of Columbia under R. S. 4915, 35 U. S. C. 63 (R. 365). *Bayer* v. *Rice*, 75 Fed. (2d) 238 (Ct. of App. Dist. of Col. 1934). It is submitted that such proceedings have the effect of an adjudication of patentability. *Hill* v. *Wooster*, 132 U. S. 693 (1890).

held that the Government could not attack its own patent grants and seek to have them adjudicated invalid on grounds such as lack of invention, novelty or utility, which matters are delegated by statute to the Commissioner of Patents for determination prior to the issuance of the patents.

In connection with the allegations of paragraph 46(a), the Court below noted that the patents were not attacked upon the ground that they were invalid because being used in violation of the Sherman Act but that, conversely, the defendants were violating the Sherman Act, through patent license agreements, because the patents were invalid. In short, paragraph 46(a) requested the Court to sit in review on the Commissioner of Patents and determine that the Patent Office erred in issuing the patents and that as a consequence the defendants violated the anti-trust laws for having sought in good faith to enjoy the privileges of the patent grants (R. 371-2).

The Court below ruled that the Government had no right, statutory or otherwise, to attack the validity of the patents. It did not, however, either in its ruling with respect to 46(a)[57] or in its rulings on the submission of evidence during the trial of the case,[58] foreclose the Government from introducing evidence on the topics therein mentioned as might be relevant or material to other issues in the case. And by sustaining the first and last sentences of paragraph 46(a), the Court below gave the Government full

[57]R. 391.

[58]For example, in connection with the perforated lath patent, evidence was admitted, as bearing on the question of good faith, that one of the licensees, Certain-teed, had been advised prior to its acceptance of a license that the patent was lacking in invention. (Exhibits 601, 602, R. 1204, 1291, 3452).

opportunity to attempt to narrow the scope of the patents in question or show that they were not basic or of any substantial value.[59]

(a) The Government having made the Patent Grant after due Administrative Action Should not be Allowed to Question its own Action in an Anti-Trust Proceeding.

Under Constitutional authority, Congress has set up an extensive system for the issuance of patents designed to protect both the inventor and the public. Every patent application is studied and considered by experienced examiners skilled in the particular art of the invention.

The law provides for a Commissioner of Patents, assistant commissioners and examiners of "competent legal knowledge and scientific ability."[60] When a patent application is filed, the Commissioner "shall cause an examination to be made of the alleged new invention or discovery; and if on such examination it shall appear that the claimant is justly entitled to a patent under the law, and the same is sufficiently useful and important, the Commissioner shall issue a patent therefor."[61] Where necessary, hearings are held and testimony is taken.[62] Appeals within the Patent Office are allowed to the Board of Appeals.[63] A further appeal is allowable to the United States Court of Customs and Patent Appeals.[64] In the alternative, a suit in equity may be brought to compel the issuance of a patent.[65]

[59] No attempt whatever was made to establish these allegations.
[60] R. S. § 476, 35 U. S. C. 2; R. S. § 482, 35 U. S. C. 7.
[61] R. S. §4893, 35 U. S. C. 36.
[62] R. S. § 4904, 35 U. S. C. 52; R. S. § 4905, 35 U. S. C. 53; R. S. 4906, 35 U. S. C. 53.
[63] R. S. § 4909, 35 U. S. C. 57.
[64] R. S. § 4911, 35 U. S. C. 59(a).
[65] R. S. § 4915, 35 U. S. C. 63.

The Government, through the Commissioner of Patents, is acting in its sovereign capacity in determining questions of patentability and issuing patents under these provisions of the patent law. In issuing patents, the Government makes a solemn covenant that the applicant shall have an exclusive right to the prescribed invention for 17 years, the patentee bargaining on the other hand fully to disclose his invention so as to increase the knowledge of the art.

By seeking to contend now that the Commissioner of Patents erred in issuing the patents in suit, the Government is at the very least breaching its solemn covenant with the patentee and those dealing with him in reliance upon the patent grant. Certainly a court of equity should not condone such conduct. As stated in the opinion of the Court below (R. 385):

> "No private litigant could expect relief in a court of equity upon the premise of a broken promise on his own part. *A fortiori* the Government should not. On the contrary it should scrupulously keep and perform each of its own covenants. One of the first objectives and essentials of good government is order and certainty in relations between government and citizen. This cannot be secured if the Government itself is not to be depended upon to abide its grants, even if they have been improvidently or erroneously made. The attack of the Government upon the patents under paragraph 46(a) is based upon the extraordinary premise that the Government can in one department issue a grant and in another question its own action, in the absence of charges of fraud in inducing the action. Common principles of justice and fairness in dealings between patent applicants and the Government give patentees a right to assume that their patents are valid insofar as any attack on

them by the Government which issued them is concerned, unless the attack is for fraud in the obtaining of the patents."

It has become well settled by this Court and throughout the law that while courts may review actions of an administrative agency when they go beyond legal authority, or have been arbitrary, or induced to act by fraud, there is no authority, at least in the absence of statute, to review the exercise of discretion or judgment by such administrative agencies. *Welch* v. *Obispo Oil Co.*, 301 U. S. 190 (1937); *Leach* v. *Carlile*, 258 U. S. 138 (1922); *Houston* v. *St. Louis Independent Packing Co.*, 249 U. S. 479 (1919).

The foregoing doctrine has been applied in preventing the Government from attempting to cancel a patent on grounds other than fraud. *United States* v. *Bell Telephone Company*, 167 U. S. 224 (1897). In that case the Government brought a bill in equity to set aside and cancel a patent covering a telephone transmitter on grounds of both fraud and lack of patentability. It was held that the Government failed to establish the alleged fraud. As to the grounds of patentability, the Court held against the Government upon the ground that "the judgment of the Patent Office, the tribunal established by Congress to determine such questions, was adverse to the contention of the Government, and such judgment cannot be reviewed in this suit".[66] This Court stated (167 U. S. at p. 267):

"But, further, Congress has establishd the Patent Office, and thereby created a tribunal to pass upon all questions of novelty and utility. It has given to that

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[66] *United States* v. *Bell Telephone Company*, 167 U. S. 224, at 264.

office exclusive jurisdiction in the first instance, and has specifically provided under what circumstances its decisions may be reviewed, either collaterally or by appeal. As said in *Butterworth* v. *Hoe,* 112 U. S. 50, 67, 5 Sup. Ct. 25, 34: 'That it was intended that the Commissioner of Patents, in issuing or withholding patents, in reissues, interferences, and extensions, should exercise quasi-judicial functions, is apparent from the nature of the examinations and decisions he is required to make, and the modes provided by law, according to which, exclusively, they may be reviewed.'

"Sections 4911-4914, Rev. St., grant appeals in certain cases to the Supreme Court of the District of Columbia. It is true those sections do not authorize appeals on behalf of the Government, but the failure so to do may be evidence that Congress thought the Government ought not to interfere, and because it believed it had made ample provision for securing the rights of all without the intervention of the Government. Section 4915, Rev. St., authorizes a suit in equity on behalf of an applicant for a patent whose application has been refused. *Morgan* v. *Daniels,* 153 U. S. 120, 14 Sup. Ct. 772, presented a controversy under that section, and in the opinion, on page 124, 153 U. S., and page 773, 14 Sup. Ct., we said: 'It is a controversy between two individuals over a question of fact which has once been settled by a special tribunal, entrusted with full power in the premises. As such it might be well argued, were it not for the terms of this statute, that the decision of the Patent Office was a finality upon every matter of fact.'

"It is true that all these sections refer to proceedings between individuals, but the Government is as much bound by the laws of Congress as an individual, and when Congress has created a tribunal to which it has given exclusive determination in the

first instance of certain questions of fact, and has specifically provided under what circumstances that determination may be reviewed by the courts, the argument is a forcible one that such determination should be held conclusive upon the Government, subject to the same limitations as apply in suits between individuals."

In conclusion, the Court stated that in prior proceedings[67] it had affirmed the right of the Government to proceed by suit in equity against one who had fraudulently obtained a patent but pointed out that (p. 269):

"* * * there was no attempt to define the character of the fraud, or deceit or mistake, or the extent of the error as to power which must be established before a decree could be entered cancelling the patent. It was not affirmed that proof of any fraud, or deceit, or the existence of any error on the part of the officers as to the extent of their power, or that any mistake in the instrument, was sufficient to justify a decree of cancellation. Least of all was it intended to be affirmed that the courts of the United States, sitting as courts of equity, could entertain jurisdiction of a suit by the United States to set aside a patent for an invention on the mere ground of error of judgment on the part of the patent officials. That would be an attempt on the part of the courts in collateral attack to exercise an appellate jurisdiction over the decisions of the Patent Office, although no appellate jurisdiction has been by the statutes conferred. We are of opinion, therefore, that the question, as stated, is not open for consideration in this case."

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[67] *United States* v. *Bell Telephone Co.*, 128 U. S. 315 (1888) and *United States* v. *American Bell Telephone Co.*, 159 U. S. 548 (1895).

The Government's attack on the validity of patents in the present case constitutes precisely the same attempt to have this Court exercise an appellate jurisdiction over the decisions of the Patent Office which was rejected in the *Telephone* case. The attempt should be similarly rejected here.

There are many similar rulings by this Court in respect of the comparable determinations of land patents. In the case of *United States v. Coronado Beach Company,* 255 U. S. 472 (1921), the Government sought by a bill in equity to ascertain the rights of private parties in an island in the harbor of San Diego, California, and to condemn the entire island for public purposes. A dispute arose as to the extent of the original grant, the Government charging that it went only to the shore line and the company contending that it included the tide lands. The Government attempted to show that the extent of the original land patent was erroneous, but Mr. Justice Holmes, speaking for this Court said (p. 488):

> "The grant to Carrillo was bounded 'west by the anchorage for ships' and although it well may be that in view of the purpose set out in his petition and the circumstances the grant could have been construed more narrowly, that was a matter to be passed upon and when the decree and the patent went in favor of the grantee it is too late to argue that they are not conclusive against the United States. It is said that the field notes, not put in evidence at the trial, show that the deep water line was not surveyed, but was taken from the Coast Survey maps. But however arrived at it was adopted by the United States for its grant and it cannot now be collaterally impeached."

See also *Burke* v. *Southern Pacific R. R. Co.*, 234 U. S. 669 (1914); *Steel* v. *Smelting Co.*, 106 U. S. 447 (1882); *Mowry* v. *Whitney*, 81 U. S. 434 (1871).

The Government argues that it really isn't attempting to attack the patents, or obtain a cancelation thereof, but is merely attempting to show the fact of invalidity. It is submitted that this is an argument based on phraseology rather than substance. It has no merit. Upon the argument of the motion to dismiss paragraph 46(a) the Government conceded that it was seeking a judicial determination that the patents were invalid. On several previous occasions as well as in its present brief, the Government has contended it made no such concession but the record is clear that it did.[68] Indeed, the Government not only conceded

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[68]Upon the argument of the motion to dismiss paragraph 46(a) the following colloquy between Government counsel and Justice Stephens and Justice Garrett took place (R. 416-7):

> "Justice Stephens. But we would have to make a judicial determination, would we not? The defense to price-fixing here is that price-fixing is proper under the General Electric case because it is price-fixing which occurs under patent license agreements. You assert that the patent license agreements are not valid for two reasons; first, because they go beyond the corporate confines of the General Electric case decision; and second, because of the patents on which they are founded being invalid. It seems to me that that goes to the very gist of the contentions. Have we got to reach a judicial determination that these patents are invalid, and if we do what is the difference between that and cancelling them, except in the form of the ruling?
>
> "Mr. Steffen. I would say that you are quite right, that you would have to make a judicial determination. The difference is one in remedy. We don't ask to have it cancelled. Our only authority, as I see it here, is to enforce the Sherman Act, and that is all that we ask, that such remedies be granted as are necessary to make sure that the central policy of the Sherman Act is fully carried out.

but asserted the point. But whether or not the concession was made, the fact remains that by paragraph 46(a) the Government sought a judicial determination that the patents were invalid. No device of language will alter that fact. As the Trial Court noted (R. 3932):

> "The Government cannot by any contention or form of words or affidavit avoid the plain fact that in asking for a judicial determination of invalidity of the patents for the reasons charged in paragraph 46(a), it was in legal effect asking for a determination that the Commissioner erred in issuing them, because if the court determined that they were invalid it would of necessity have determined that the Commissioner erred in issuing them."

(b) There is no Statutory Authority for the Attack on Patents.

The patent statutes admittedly do not authorize an attack upon the validity of patents as alleged in paragraph

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And if, in the course of that, it is necessary to say that patent number so and so is invalid, and therefore their price-fixing scheme is invalid based on that, that would be a judicial determination, but we do not ask to have the patent cancelled.

"I might point out, Judge Garrett, that the other ground is that we are not proceeding on any question of fraud, which was granted in the American Bell Telephone case as being a proper means of proceeding.

"Justice Garrett. Yes, I understand that. The particular thing I was inquiring about is that I was curious to see if there was a judicial determination and that the patent was invalid, what is the difference between that and an order to cancel it. It has the same effect, doesn't it? That throws that process open to the public and destroys the value of the patent as far as its owner is concerned?

"Mr. Steffen. I should think so, * * *"

46(a). On the contrary the legislative history of the patent law establishes that Congress never intended that the Government should be able to attack its own patent grant as here attempted.

Since the enactment of the first patent statute in 1790, Congress has provided for the granting of exclusive rights to inventors to make, use and sell their discoveries and for corresponding rights in certain members of the public to question the rights of patentees.

In the beginning, patents were issued upon petition to the Secretary of State, the Secretary for the Department of War and the Attorney General who granted a patent whenever they or two of them regarded the invention or discovery as sufficiently useful and important. At this time there was no system for carefully examining the patent applications of inventors nor for testing the claims by examiners skilled in the prior art. To counteract this situation, the law provided that within one year (later three years) of the issuance of a patent, anyone might seek a repeal of the patent by showing that it "was obtained surreptitiously or upon false suggestion," or "that the patentee was not the first and true inventor or discoverer" and, as in all later patent statutes, a defendant in any action brought by a patentee for infringement might plead that the patent was invalid.[69]

This situation remained without substantial change until 1836 when the Patent Office was first established. The 1836 law[70] created the office of Commissioner of Patents with a staff of examining clerks, a draftsman and a machinist, and the Commissioner was directed to make

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[69] 1 Statutes at Large 109.
[70] 5 Statutes at Large 117.

an examination of the alleged new inventions to ascertain whether the same had been previously discovered by any other person or described in any printed publication. The Commissioner was further authorized to determine whether the invention was useful and important and properly described in the application. The section permitting a defendant in an infringement suit to question the validity of patents was preserved but the former section permitting anyone to seek a cancelation of a patent was repealed. In addition, the courts were authorized to declare patents invalid in suits between owners of interfering patents. The general framework of the patent law of 1836 remains unchanged to this time.

The Congressional intention is clear from the foregoing. Prior to the formation of the Patent Office, when there was no procedure for careful surveillance of the issuing of patents, Congress granted broad powers in all the public to bring proceedings to invalidate and cancel patents. Later, however, those powers became unnecessary, and were repealed. From that time the instances when the validity of patents could be attacked were limited. For the most part, the issue was raised in infringement suits.

In 1910 a law was passed permitting suits for patent infringement to be instituted against the United States in the Court of Claims.[71] This law specifically provided that in such an action the United States could avail itself of any and all defenses, general or special, that might be pleaded in an action for infringement. The Government relies on this circumstance to show that Congress was not adverse on moral grounds to permit the Government to challenge its own patent grant. In this instance the moral

[71] 36 Stat. 851, 35 U. S. C. 68.

question is of little substance since prior to the Act the Government was not liable for infringement at all and, in granting relief to patentees whose rights had been infringed by the Government, Congress saw no reason to place patentees in a more favorable position than they would have occupied in respect of a non-governmental infringer.

But we regard the statute in question as of significance for another reason. It shows that Congress deemed it necessary, after permitting a suit against the Government for infringement, specifically to reserve the right to the Government to challenge validity. The law already provided that "in any action for infringement the defendant" might show that the patent was invalid.[72] In the normal case, that law surely was broad enough to protect the Government since it provided for the defense of invalidity on behalf of any defendant in an infringement suit. The reason for making special provision for such a defense by the Government in this instance was that Congress recognized that the Government was in a special situation since it had itself granted the patent.

In the last few years several bills have been introduced specifically authorizing the Government to attack patents in an anti-trust case. None of these bills has become law.[73]

The Government contends that Congress gave it authority to attack patents when it enacted Section 4 of the Sherman Act authorizing the Attorney General to enjoin violations of the anti-trust law. This argument is faulty because the Government can only assert here that the Sherman Act has been violated after the Court has determined the pat-

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[72] R. S. 4920; 35 U. S. C. 69.

[73] H. R. 3874, 78th Cong. 1st Sess (1943); H. R. 3462, 79th Cong. 1st Sess. (1945); S. 2482, 79th Cong. 2nd Sess. (1946).

ents to be invalid. There is a bar against the suit at the threshold.

On the basis of the foregoing, it is submitted that Congress never intended that the decisions of the Patent Office on matters properly before it for determination should be questioned by another branch of the Government. For reasons similar to those urged above in connection with changing the rule of the *General Electric* case, this Court should not now change the law to subject patentees to governmental attacks via anti-trust law proceedings. As expressed by the Court below (R. 390):

> "The Government's contentions in respect of the right to attack the validity of the patents under paragraph 46(a) of the complaint really amount to an assertion not that it is, but that it ought to be, the law that notwithstanding the grant of a patent by the Commissioner of Patents the Government may test the validity of the patent in the courts. The Commissioner and his staff are asserted to be incapable, because of press of business and the conditions under which the Patent Office operates, including unavoidable ignorance of anticipation, of reaching conclusively dependable determinations in respect of the right to a patent; hence recourse to the courts to correct the Commissioner's action should be allowed, so it is urged. It is to be noted that this argument is as valid for direct attack as for incidental. If the assertions of the Government in respect of the limitations of the Patent Office are correct—upon this the court does not assume to pass—and if such limitations cannot otherwise be corrected, a case may perhaps be made for the devising of some test outside the Patent Office of the validity of patents. But it does not follow that it is within the proper function of the courts to devise it. There is

of course a recognized place for growth of the law through judicial decision in the "interstitial" or borderline case, but radical departures or innovations are not properly made by courts. Judges are not appointed in representative capacity for the purpose of law making; and judicial innovations upon the law are especially to be avoided when they would upset transactions entered into on the faith of the law as it is. Conceivably there should be Congressional action creating a statutory right in the Government to test in the courts the correctness of determinations of the Commissioner of Patents, some such remedy perhaps as is now afforded patent applicants under Rev. Stat. § 4915 (1875), 35 U. S. C. § 63 (1940). But such a remedy if created by statute would undoubtedly be made prospective in effect, that is to say, would apply only to patents issued after the passage of the act. Moreover, the actions permitted under such a statute would properly be made subject to a limitation in time, so that after a given period the rights under a patent would be secure to the patentee and those dealing with him so far as interference by the Government was concerned. It is not within the proper function of courts to open the door by judicial innovation to Government attack on patents, retroactive in effect and without limitation in time, and thus to unsettle industrial security so far as it is based on the patent system."

(c) The Authorities Relied upon by the Government do not Authorize the Attack on the Patents.

As the Court below stated in its opinion, there is no controlling judicial decision directly in point. The Government relies on *United States* v. *Porcelain Appliance Corp.*, Unreported (N. D. Ohio, E. D. Sept. 9, 1926), an anti-trust proceeding, where the Court denied a motion by defendants

to strike from the complaint allegations pertaining to the validity and scope of patents. The Court there said that, while the suit was not one to cancel patents and it was probably beyond the scope of all possible issues to decree patents or patent claims to be void, it was conceivable that invalid patents or patents of limited coverage, in the light of the prior art, might be wrongfully used in creating an illegal combination, and that whether the case was of such a nature as to permit or require inquiry into such questions could not be determined on the motion to strike. The Court did not consider the question whether the Government can raise an issue as to the validity of its own action in granting patents.

In *United States* v. *Standard Oil Co.*, 33 Fed. (2d) 617 (D. C. Ill. 1929), reversed 283 U. S. 163 (1931), an anti-trust case involving alleged restraints of trade arising from patent license agreements on cracking oil, the trial was conducted before a Master. During the course of the proceedings the Government offered evidence to show the lack of patentability of two of the patents. After objections, the Master certified the question to the District Court (consisting of three Circuit Judges under the Expediting Act) for a ruling and the Court directed that the evidence be received.[74] However, when the Master filed his report at the close of the trial he held that the Government could not attack the validity of the patents.[75] The District Court, in considering the Master's report, stated that it was "divided

[74] *United States* v. *Standard Oil Co.*, 283 U. S. 163, Record on Appeal, Vol. I, pp. 410-424.

[75] *United States* v. *Standard Oil Co.*, 283 U. S. 163, Record on Appeal, pp. 447-449. The Government finds it convenient to omit any reference to this circumstance in its discussion of this case (Gov. brief, p. 285).

respecting the right of the government to attack the validity of the patents in these proceedings" (33 Fed. (2d) 617, at p. 623). This Court did not pass on the question. The case constitutes no ruling of any value on the question now before this Court.

Sola Electric Co. v. *Jefferson Electric Co.*, 317 U. S. 173, holds that a patent licensee sued for royalties is not estopped from counterclaiming for a declaratory judgment that the patents covered by the license were invalid. This Court held that under the circumstances of that case where price-fixing provisions were contained in the license, notwithstanding the rules of estoppel the defendant licensee could challenge the validity of the patents as asserted in its counterclaim. The Government argues that since this case and the similar rulings in *Katzinger Co.* v. *Chicago Mfg. Co.*, 329 U. S. 394 (1947), and *MacGregor* v. *Westinghouse Co.*, 329 U. S. 402 (1947) permit a private person to show invalidity notwithstanding an agreement not to do so, the Government ought to be able to do the same thing. But obviously these decisions do not reach the heart of the question, *i.e.* whether the Government itself may attack its own patent grant. Other cases, *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436 (1940), *United States* v. *Univis Lens Co.*, 316 U. S. 241 (1942), and *United States* v. *Masonite Corp.*, 316 U. S. 265 (1942), have language implications which suggest to the Government that this Court might hold that it might attack patents in a Sherman Act case. In each instance no question of the validity of patents was raised and the language relied upon is mere dicta.

For the purpose of this question we may treat the amended complaint as charging only that the license agreements, though valid on their face and without the scope of

the Sherman Act, are nevertheless invalid because the patents are invalid. This, as shown, is an attempt by the Government to obtain a judicial determination of the validity of the patents.

It has been held by this Court that in an action to enforce a license agreement with price control defendants may defend on the ground that the patents are invalid. *Bement* v. *National Harrow Co.*, 186 U. S. 70, 88, *supra*; *Sola Electric Co.* v. *Jefferson Co.*, 317 U. S. 173, 177, *supra*. It is important however to bear in mind that these cases involved only the right of a private party to defend against enforcement by the court of such a contract. There the judgment is a denial of future enforcement and is binding only upon the parties to the suit.

No such question arises here because (a) this is not an action to enforce a contract, (b) the Government granted the patents and may not seek a judicial determination of their validity for want of invention or other reason alleged in paragraph 46(a), and (c) the use of the patents by the defendants for the very purpose for which issued could not constitute a combination or conspiracy to violate the Sherman Act.

A patent, when issued, constitutes a solemn grant of the Government of the exclusive right to the invention, including the right to license others with price control. The patent has the presumption of validity and can not be attacked collaterally by the Government which granted it, nor does the law provide for any sort of direct suit by the Government to have a patent declared illegal for want of invention or any other reason except fraud on the Patent Office. It follows that no court has jurisdiction to review the action of the Commissioner or to adjudicate the validity of the patents for any reason alleged in the amendment.

The only right of the United States to bring a civil action to enjoin is found in Section 4 of the Act, wherein the several district courts are invested with jurisdiction to prevent and restrain violations of the Act at the suit of the Attorney General. Such an action may be maintained only where it is shown by the complaint that there is an unlawful combination, conspiracy or monopoly prohibited by Sections 1, 2 or 3 of the Act, to be enjoined. *Appalachian Coals, Inc.* v. *U. S.*, 288 U. S. 344, 377. There could be no violation of the Act by th exercise of the monopoly granted by the Government, nor could any intent to violate the Act be inferred therefrom. *Swift* v. *U. S.*, 196 U. S. 375, 396. The Government, in such a suit, may not anticipate a violation of the Act by seeking to review the action of the Commissioner and to obtain a judicial determination of the validity of the patents.

As stated, the use of the patents by the defendants for the very purpose for which they were issued could establish no combination or conspiracy to violate the Act. The patents, as between the United States and defendants, carry the presumption of validity. As shown, there is no court to which the United States may go to have the validity of the patents determined for want of invention or other reason alleged in paragraph 46(a) because the Congress has seen fit to withhold the right. To say the least, the Government's position is inconsistent, immoral and without any legislative support whatsoever.

(d) The Government's Attack on the Roos foam Patents is Without Substance.

In view of the importance of the Roos foam board invention as shown by the record in this case, the doctrine

of *Slawson* v. *Grand Street R. R. Co.*, 107 U. S. 649 (Gov. brief, pp. 283, 288) has no application here. Nor are the claims of the Roos patents open to attack because of functionality or indefiniteness, which were the fatal features of the claims held invalid in *General Electric Co.* v. *Wabash Appliance Corporation*, 304 U. S. 364, and *United Carbon* v. *Binney Co.*, 317 U. S. 228, relied upon by the Government in its attack on the claims of the Roos patents (Gov. brief, pp. 288-289). Thus in the *Wabash* case the tungsten filaments were not described by their properties, but by functional statements which called for a filament of tungsten

> "made up mainly of a number of comparatively large grains of such size and contour as to prevent substantial sagging and offsetting during a normal or commercially useful life for such a lamp."

Similarly in the *Binney* case, the claims were directed to what was otherwise an old product, carbon black "in the form of commercially uniform, comparatively small, rounded, smooth aggregates having a spongy or porous interior." Obviously this was too vague and indefinite and does not bear any resemblance to the claims of the Roos patents.

In the present case the Roos claims are clear and unequivocal, and not functional, as a brief analysis thereof will show. For example, Claim 9 of the basic Roos patent, No. 2,017,022, (quoted *supra*, p. 52) definitely specifies, first, that the product is a "light weight building material." This contrasts it with heavy concrete, bricks, stone, iron, steel, etc. Furthermore, it is "composed of a hard mass of cellular structure", which is made of a "set cementitious material." This defines the nature of the structure as being of set cement encompassing cells or voids within it.

These cells are then more definitely described as "foam cells permanently fixed therein" and which "possess their original form." The claim further defines these foam cells as "arranged throughout the structure in foam-like formation." This negatives the inclusion in the structure of merely heterogeneous pores or individually scattered holes or voids, such as might have been accidentally produced by the mere inclusion of some trapped air, as disclosed in the prior art products of Sanford and Luttgen, referred to by the Government (Gov. brief, p. 238).

Any one even slightly skilled in the building material art will recognize the nature of the product as being a set cementitious material (such as set gypsum) which, when broken open, will disclose therein voids in foam-like formation. Thus mere visual inspection will reveal the nature of the product and will permit of a comparison thereof with the claims. This is all the law requires. *Eibel Co.* v. *Paper Co.*, 261 U. S. 45, 65.

The second Roos patent, No. 2,079,338 claims the product there disclosed in even more definite terms. Thus Claim 1 (R. 108) not only positively recites the presence of bubbles, but further states that the walls thereof are reinforced by a colloidal agent from a given group. The purpose of such reinforcement is further stated, but this is not a functional statement. It is only a more detailed definition of the bubble walls.

The third Roos foam patent, No. 2,080,009, is specific to wallboard having a porous body which is like that of the two previous Roos patents. The claims, including claim 10 which is the main subject of the Government's criticism, are definite and precise and entirely proper.

We submit that the claims of the Roos foam board patents adequately, clearly and definitely cover the gypsum board involved in the present case.

CONCLUSION

THE JUDGMENT BELOW SHOULD BE AFFIRMED.

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Respectfully submitted,

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